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July 24, 1987

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RECORDATION NO. 1428

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INTERSTATE COMMERCE COMMISSION

Ms. Noreta McGee
Secretary
Interstate Commerce Commission
Twelfth Street & Constitution Avenue
Washington, D.C. 20423

Re: Southern Pacific Transportation Co.

Dear Secretary:

Please find enclosed an original and three copies of the document described below, to be stamped and recorded pursuant to Section 11303 of Title 49 of the U.S. Code. This document is a Sale and Conditional Sale-Back Agreement, a primary document dated as of June 1, 1987.

The names and addresses of the parties to the document are as follows:

Vendor: First Pennsylvania Bank N.A.
30 S. 30th Street
Philadelphia, PA 19104

as agent for

The CIT Group/Equipment Financing Inc.
270 Park Avenue
New York, New York 10017

Debtor: Southern Pacific Transportation Co.
One Market Plaza
San Francisco, Ca. 94105

A designation of the equipment covered by the document follows:

36 remanufactured 3,600 horse-power diesel locomotives, model No. SD45-T2 (original model No. SD45-2); any and all replacements and accessions in such locomotives and any and all replacements of parts thereof, whether as a result of any repair or maintenance thereof or any im-

Handwritten: 1 Original - Ann M. Caland
1 Original - [Signature]

provement thereon or for any other reason whatsoever; and any proceeds of the foregoing. The old road numbers, the new road numbers and serial numbers on such locomotives are set forth in Schedule A to the Sale and Conditional Sale-Back Agreement.

A short summary of the document to appear in the index follows: Sale and Conditional Sale-Back Agreement, dated as of June 1, 1987, between Southern Pacific Transportation Company and First Pennsylvania Bank N.A., as agent for The CIT Group/Equipment Financing, Inc.

A fee of \$10 is enclosed. Please return the original stamped and recorded copy and any extra copies not needed by the Commission for recordation to Benito M. Lopez, Esq. If you have any questions regarding this filing please contact Mr. Lopez at 212-820-1410 or the undersigned at 212-820-1808.

Sincerely yours,

Wilfred K. Chow
Wilfred K. Chow

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RECORDATION NO. Filed 1987

JUL 24 1987 -4 25 PM

INTERSTATE COMMERCE COMMISSION

SALE AND CONDITIONAL SALE-BACK AGREEMENT

(Conditional Sale Indebtedness Series B
Due 1997)

Dated As of June 1, 1987,

Between

SOUTHERN PACIFIC TRANSPORTATION COMPANY

and

FIRST PENNSYLVANIA BANK N.A., as agent

Filed with the Interstate Commerce Commission pursuant to 49 U.S.C. § 11303 on July __, 1987, at ____ p.m., recordation number _____. Filed with the Office of the Secretary of State of the State of California pursuant to Chapter 4 of Division 9 of the California Commercial Code on July __, 1987, at ____ p.m., recordation number _____. Filed with the Office of the Secretary of State of the State of Oregon pursuant to Chapter 79, Section 4010 of the Oregon Commercial Code on July __, 1987, at ____ p.m., recordation number _____.

SALE - CONDITIONAL SALE-BACK AGREEMENT

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SALE - CONDITIONAL SALE-BACK AGREEMENT dated as of June 1, 1987, between SOUTHERN PACIFIC TRANSPORTATION COMPANY, a Delaware corporation (the "Railroad"), and FIRST PENNSYLVANIA BANK N.A. (the "Vendor"), as agent for The CIT Group/Equipment Financing, Inc. (the "Investor") under the Finance Agreement dated as of June 1, 1987 (the "Finance Agreement"), among the Investor, the Railroad and the Vendor.

WHEREAS the Railroad has agreed to construct, sell and deliver to the Vendor, and the Vendor has agreed to purchase, as agent for the Investor under the Finance Agreement pursuant to the authority granted to it under the Finance Agreement, the railroad equipment described in Schedule A hereto (the aggregate of such equipment being referred to herein as the "Equipment" and each individual locomotive described in said Schedule A being referred to herein as a "unit" of the Equipment); and

WHEREAS, the Vendor has agreed, in such capacity and pursuant to such authority, to sell back, and the Railroad has agreed to purchase back, the Equipment on a conditional sale basis;

NOW, THEREFORE, in consideration of the mutual promises, covenants and agreements hereinafter set forth, the parties hereto do hereby agree as follows:

ARTICLE 1. Remanufacture and Sale to Vendor.
Pursuant to this Agreement the Railroad shall remanufacture the units of the Equipment as described in Schedule A hereto and will sell and deliver to the Vendor at the Railroad's facility in Eugene, Oregon, and the Vendor (acting as agent for the Investor as aforesaid) will purchase from the Railroad and accept delivery of and pay for (as hereinafter provided), such Equipment, each unit of which shall be remanufactured in accordance with the specifications set forth therefor in Schedule A hereto and in accordance with such modifications thereof as the Railroad shall inform the Vendor in advance in writing and consented to in writing by the Vendor pursuant to the Finance Agreement (which specifications and modifications, if any, are hereinafter called the "Specifications"). The design, quality and component parts of each unit of the Equipment shall conform, on the date of the delivery thereof, to all Department of Transportation and Interstate Commerce Commission requirements and specifications and to all standards recommended by the Association of American Railroads reasonably interpreted as being applicable to equipment of the character of such units of the Equipment.

The Railroad agrees that it will warrant to the Vendor, at the time of delivery of each unit of its Equipment hereunder, that it has legal title to such unit and good and lawful right to sell such unit and that title to such unit is free of all claims, liens, security interests and other encumbrances (other than those created hereby); and the Railroad further agrees that it will defend the title to each unit of its Equipment against the demands of all persons whomsoever based on claims arising from any defect in title to such unit existing at or prior to the time of delivery of such unit by the Railroad.

ARTICLE 2. Delivery by the Railroad. The Railroad shall deliver to the Vendor (acting as agent for the Investor as aforesaid) the units of Equipment during the period specified in Schedule A hereto at the Railroad's facility in Eugene, Oregon. The Railroad's obligation as to time of delivery is subject, however, to delays resulting from causes beyond the Railroad's reasonable control, including but not limited to acts of God, acts of government such as embargoes, priorities and allocations, war or war conditions, riot or civil commotion, sabotage, strikes, differences with workmen, accidents, fire, flood, explosion, damage to plant, equipment or facilities, delays in receiving necessary materials or Equipment or delays of carriers or subcontractors.

Notwithstanding the preceding provisions of this Article 2, any Equipment not delivered, accepted and settled for pursuant to Article 3 hereof on or before December 31, 1987, or such other date as the parties may agree upon, shall be excluded herefrom. If any unit or units of Equipment shall be excluded from this Agreement pursuant to the immediately preceding sentence, the Vendor and the Railroad shall execute an agreement supplemental hereto limiting this Agreement to the units of Equipment not so excluded herefrom.

Upon completion of each unit or of a number of units of the Equipment, such unit or units shall be inspected by an inspector of the Railroad in accordance with the standard quality control practices of the Railroad, and if each such unit conforms to the Specifications, requirements and standards referred to in Article 1 hereof applicable thereto, concurrent with the delivery of such unit or units to the Vendor the Railroad shall execute and deliver an Officers' Certificate, accompanied by a copy of the Certificate of Acceptance (the "Certificate of Acceptance") issued by such inspector pursuant to the internal procedures of the Railroad with respect to such unit or units, to the Vendor which Officers' Certificate shall state that such inspection has been completed as to such unit or units, that each such unit conforms to such Specifications, requirements and standards and that the accompanying copy of the Certifi-

cate of Acceptance is a true and correct copy thereof properly issued with respect to such unit or units in accordance with the normal internal procedures of the Railroad. The Railroad shall also permit representatives of the Investor to inspect the units of Equipment as such are or are being completed at such reasonable times as the Investor may request.

For purposes of this Agreement, "Officers' Certificate" means a certificate signed by two Officers, who consist of the Chairman of the Board, the President, the Secretary, Treasurer, the Chief Mechanical Officer or a Vice-President of the Railroad ("Officers").

The Railroad will assume, at all times prior to and following the delivery hereunder of each unit of Equipment, the responsibility and risk of, and shall not be released from its obligations hereunder in the event of, any damage to or the destruction or loss of such unit, including its warranties and indemnities referred to in Article 13 hereof.

The delivery of the bill of sale in respect of a unit or units of Equipment pursuant to Article 3 hereof shall constitute delivery of such unit or units under this Article 2.

ARTICLE 3. Purchase Price and Payment by Vendor. The Railroad hereby assigns, transfers and sets over unto the Vendor, its successors and assigns, all of the right, title and interest of the Railroad in and to each unit of its Equipment when and as delivered to the Vendor, subject to payment by the Vendor to the Railroad of the amount required to be paid to the Railroad under this Article 3.

The base price per unit of the Equipment is set forth in Schedule A hereto (the "Base Price"). The purchase price or prices of the units of Equipment as stated in the invoices therefor presented hereunder (said invoiced prices being hereinafter called the "Invoiced Purchase Prices") are subject to such increase or decrease from the Base Price as may be agreed to by the Vendor and the Railroad. On each Closing Date (as hereinafter defined), the invoice presented by the Railroad shall be a final invoice setting forth the Invoiced Purchase Price for the Group (as defined hereinafter) of Equipment being settled for.

For the purpose of making settlement, the Equipment of the Railroad shall be divided into groups of units of the Equipment delivered to the Vendor, each group consisting of units of Equipment not yet settled for and for which an invoice or invoices and the Certificate or Certificates of Acceptance are presented by the Railroad by the 9th day of any calendar month (each such group being hereinafter

called a "Group"); provided, however, that, except for the last settlement, in no event, without the consent of the Vendor, shall the aggregate Purchase Price of all units of Equipment for which settlement is being made, as stated in the invoice therefor, be less than \$600,000 and settlement shall not be made hereunder more frequently than once each month.

The term "Closing Date" with respect to any Group of the Equipment shall mean the dates set forth in this paragraph. The first Closing Date shall be July 24, 1987. Any other Closing Date shall mean such date (on or after the first Closing Date and prior to December 31, 1987, or such other date as the parties may agree) not later than the twenty-sixth day (or if such day is not a business day, on the next succeeding business day) of the calendar month of timely presentation by the Railroad to the Vendor of the invoice or invoices and the Certificate or Certificates of Acceptance for such Group, as shall be fixed by the Vendor by written notice delivered to the Railroad, the Investor and Messrs. Dewey, Ballantine, Bushby, Palmer & Wood at least nine business days prior to the Closing Date designated therein.

The term "business days" as used herein means calendar days, excluding Saturdays, Sundays and any other day on which banking institutions in New York, New York, or Philadelphia, Pennsylvania, are authorized or obligated to remain closed.

The Vendor, on each Closing Date, shall pay (but only from funds available for such payment pursuant to Paragraph 5(b) of the Finance Agreement), subject to certain conditions as hereinafter provided, with respect to the Group of the Equipment then being settled for, the amount (the "Actual Purchase Price") which, when combined with the aggregate of the amounts paid by the Vendor on all prior Closing Dates with respect to Groups of Equipment then settled for, equals the lesser of (1) the aggregate of the Invoiced Purchase Prices of all units for which settlement has previously been and is then being made and (2) the aggregate of the Base Prices for all units for which settlement has previously been and is then being made.

The Vendor shall not be required to make payment as provided in the immediately preceding paragraph unless, at least five business days prior to such Closing Date, the following documents (the "Requisite Documents"), in form and substance satisfactory to the Vendor and its special counsel hereinafter mentioned, in such number of counterparts as may be reasonably requested by said special counsel, shall have been delivered to the Vendor and the Investor, with copies of the documents specified in subparagraphs (a), (b), (c),

(e), (f), (g) and (h) delivered concurrently to such special counsel:

(a) a bill of sale, dated as of such Closing Date, from the Railroad to the Vendor transferring to the Vendor the title of the Railroad in such Group, warranting to the Vendor that at the time of delivery of such units hereunder the Railroad has legal title to such units and good and lawful right to sell such units and that title to such units is free of all claims, liens, security interests and other encumbrances (other than those created hereby) and covenanting to defend the title to such units against the demands of all persons whomsoever based on claims arising from any defect in the title to such units existing at or prior to the time of the delivery of such units by the Railroad hereunder;

(b) an Officers' Certificate, dated as of such Closing Date, with respect to the units of the Equipment in such Group accompanied by a copy of the Certificate of Acceptance both as contemplated by Article 2 hereof;

(c) a final invoice of the Railroad for the units of Equipment in such Group setting forth the Invoiced Purchase Price of such units accompanied by an Officers' Certificate to the effect that the Invoiced Purchase Price of such units is correct and is not higher than the Fair Market Value (as defined in Article 8 hereof and determined by the Railroad without resort to the appraisal procedure set forth in Paragraph 11 of the Finance Agreement) of such units;

(d) an opinion of Messrs. Dewey, Ballantine, Bushby, Palmer & Wood, who are acting as special counsel for the Vendor and the Investor, dated as of such Closing Date, in substantially the form of Exhibit B hereto;

(e) an opinion of the general counsel for the Railroad, dated as of such Closing Date, in substantially the form of Exhibit A hereto;

(f) a receipt from the Railroad for any payment made by the Vendor on such Closing Date to the Railroad with respect to its Equipment;

(g) an Officers' Certificate, dated as of such Closing Date, to the effect (i) that no Event of Default (as defined in Article 16 hereof), or event which with the lapse of time and/or demand provided for herein could constitute an Event of Default, shall have occurred and is then continuing, (ii) that no tax liens

(including tax liens filed pursuant to Section 6323 of the Tax Reform Act of 1986, as amended) have been filed and are currently in effect which would adversely affect the security interest of the Vendor created hereby in the Equipment, (iii) that no taxes, assessments or governmental charges or levies are delinquent as to the Equipment and (iv) to the effect set forth in clause (ii) of the last paragraph of this Article 3; and

(h) either a written notice by the Investor to the effect set forth in clause (iii) of the last paragraph of this Article 3 or a written direction to the effect that the condition as set forth in such clause (iii) is to be waived.

The documents specified in subparagraphs (a), (b), (c), (d), (e), (f) and (g) above shall be addressed to the Vendor and specify in such address that the Vendor is acting as agent for the Investor under the Finance Agreement. In giving the opinions specified in subparagraphs (d) and (e) of this Article 3, counsel may qualify any opinion to the effect that any agreement is a legal, valid and binding instrument enforceable in accordance with its terms by a general reference to limitations as to enforceability imposed by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally. In giving the opinions specified in subparagraph (d) of this Article 3, counsel may rely on the opinion of counsel for the Railroad and the opinion of counsel for the Vendor furnished pursuant to Paragraph 2 of the Finance Agreement as to any matter governed by the law of any jurisdiction other than New York, California or the United States. Prior to any Closing Date, any document specified in subparagraphs (a), (b), (c), (d), (e), (f), (g) and (h) of this Article 3 delivered to the Vendor pursuant to the seventh paragraph of this Article 3 in respect of such Closing Date shall be deemed to be held by the Vendor in escrow for the benefit of the party delivering such document, and shall be deemed released from such escrow into the possession of the Vendor on such Closing Date unless, prior to such Closing Date, the Vendor shall have received telephone direction from such party, promptly followed by written confirmation, to return such document to such party upon which the Vendor shall comply with such direction and such document shall not be deemed to have been delivered to the Vendor pursuant to the seventh paragraph of this Article 3 in which event the Vendor shall not be required to make payment for the Equipment pursuant to that paragraph.

The Vendor shall not be required to make payment for the Equipment sold pursuant to this Article 3:

(i) at any time after the commencement of any proceedings specified in clause (f), (g), (h), (i) or

(j) of Article 16 hereof or if an Event of Default, or any event (a "Default") which with the lapse of time and/or demand provided for in said Article 16 could constitute an Event of Default, shall have occurred and be continuing hereunder; or

(ii) on any Closing Date, unless the units of Equipment presented for settlement on such date shall not have suffered in any material respect any Casualty Occurrence (as defined in Article 8 hereof); or

(iii) on any Closing Date, unless a representative of the Investor shall have, on or before such date, upon an inspection of the Group of Equipment to be presented for settlement on such date as contemplated by Article 2 hereof, determined to his satisfaction that the units in such Group conform to the Specifications, requirements and standards referred to in Article 1 hereof.

ARTICLE 4. Sale-Back to and Payment by the Railroad. Upon the purchase of a unit or units of Equipment on a Closing Date pursuant to Article 3 hereof, the Vendor will sell such unit or units to the Railroad and the Railroad will purchase back from the Vendor such unit or units and pay for such unit or units in accordance with this Article 4. Such sale by the Vendor shall be without recourse against the Vendor for or account of any loss, damage, injury, liability, claims and demands whatsoever, regardless of the cause thereof, arising out of the use and operation of the Equipment by the Railroad during the period when title thereto remains in the Vendor or the transfer of title to the Equipment by the Vendor pursuant to any of the provisions of this Agreement.

The Railroad warrants and agrees that it has re-manufactured according to the Specifications all of the Equipment being sold to the Railroad pursuant to this Article 4 based on its own judgment and requirements and the Railroad is not relying on the Vendor to select or furnish goods or Equipment suitable for any particular purpose.

NEITHER THE VENDOR NOR THE INVESTOR, NOT BEING THE MANUFACTURER OR REMANUFACTURER OF THE EQUIPMENT, NOR THE MANUFACTURER'S OR REMANUFACTURER'S AGENT OR A DEALER, MAKES ANY WARRANTIES OF ANY KIND WHATSOEVER WITH RESPECT TO THE EQUIPMENT, EXPRESS OR IMPLIED, DIRECTLY OR INDIRECTLY, INCLUDING WITHOUT LIMITATION WARRANTIES AS TO (i) THE MERCHANTABILITY OF THE EQUIPMENT; (ii) ITS FITNESS, CAPACITY OR DURABILITY FOR ANY PARTICULAR PURPOSE; (iii) THE DESIGN OR CONDITION OF THE EQUIPMENT; (iv) THE QUALITY OF THE MATERIAL OR WORKMANSHIP IN THE EQUIPMENT; (v) COMPLIANCE OF THE EQUIPMENT WITH THE REQUIREMENTS OF ANY LAW, RULE, SPECIFICA-

TION OR CONTRACT PERTAINING THERETO; AND (vi) THE ABSENCE OF ANY PATENT INFRINGEMENT OR LATENT DEFECTS.

THE RAILROAD AGREES TO PURCHASE UNDER THIS ARTICLE 4 "AS IS, WHERE IS AND WITH ALL DEFECTS" AND NEITHER THE VENDOR NOR THE INVESTOR SHALL HAVE ANY LIABILITY TO THE RAILROAD FOR ANY CLAIM, LOSS OR DAMAGE OF ANY KIND OR NATURE WHATSOEVER, INCLUDING ANY SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES, TO ANY EXTENT WHATSOEVER, RELATING TO OR ARISING OUT OF THE SELECTION, QUALITY, CONDITION, MERCHANTABILITY, SUITABILITY, FITNESS, OPERATION OR PERFORMANCE OF THE EQUIPMENT. NO DEFECT IN OR UNFITNESS OF THE EQUIPMENT OR PATENT INFRINGEMENT RELATING THERETO SHALL RELIEVE THE RAILROAD OF ITS OBLIGATIONS UNDER THIS AGREEMENT.

The Railroad hereby acknowledges itself to be indebted to the Vendor in the amount of, and hereby promises to pay in cash to the Vendor at such place as the Vendor may designate, the aggregate amount of the Actual Purchase Prices (as calculated pursuant to Article 3 hereof) in three consecutive equal annual installments, as hereinafter provided (the aggregate of said installments being hereinafter called the "Conditional Sale Indebtedness Series B due 1997" or "Series B Indebtedness").

The installments of the Series B Indebtedness payable pursuant to the immediately preceding paragraph shall be payable annually on June 1 in each year commencing on June 1, 1995, to and including June 1, 1997. The unpaid portion of the Series B Indebtedness shall bear interest from the respective Closing Dates on which such indebtedness was incurred at the rate of 9.25% per annum. Such interest shall be payable, to the extent accrued, on June 1 and December 1 in each year (severally an "Interest Payment Date"), commencing December 1, 1987.

All interest under this Agreement shall be calculated on the basis of actual days elapsed in a 360-day year of twelve 30-day months.

The Railroad will pay, to the extent legally enforceable, interest at a rate per annum (the "Overdue Rate") equal to the greater of (i) 10.25% or (ii) the rate of interest publicly announced by Morgan Guaranty Trust Company of New York from time to time in New York City as its Prime Rate upon all amounts remaining unpaid after the same shall have become due and payable pursuant to the terms hereof, anything herein to the contrary notwithstanding; provided, however, that the Overdue Rate shall in no event be greater than the rate permitted under applicable usury laws.

All payments provided for in this Agreement shall be made in such coin or currency of the United States of America as at the time of payment shall be legal tender for

the payment of public and private debts. Except as provided in Article 8 hereof, the Railroad shall not have the privilege of prepaying any installment of its indebtedness hereunder prior to the date it becomes due.

The Railroad agrees that, notwithstanding any provision of this Agreement or of any other agreement or instrument, or any presumption of any present or future law to the contrary, this Agreement shall not terminate except as expressly provided herein, and the Railroad's obligation to pay all annual installments of the Series B Indebtedness plus interest accrued thereon as provided in this Article 4 and other sums payable hereunder is absolute and unconditional and shall not be subject to any abatement, reduction, setoff, defense, counterclaim or recoupment for any reason whatsoever.

The Railroad hereby waives, to the extent permitted by laws, all right to terminate, cancel, revoke or quit this Agreement, except in accordance with the express terms of this Agreement. If for any reason this Agreement shall be invalid or unenforceable, or if this Agreement shall be terminated in whole or in part by operation of law or otherwise (except as expressly provided in this Agreement), the Railroad nonetheless agrees to pay to the Vendor each annual installment of the Series B Indebtedness plus interest accrued thereon as provided in this Article 4 at the time such payments would have become due and payable (including, without limitation, upon the exercise of any of the Vendor's remedies under Article 17 hereof) in accordance with the terms of this Agreement had such invalidity, unenforceability or termination in whole or in part not occurred.

In the event the Vendor, pursuant to Article 15 hereof, assigns the right to receive the payments herein provided to be made by the Railroad, the assignee thereof may request the Railroad to make and the Railroad shall make such payments to it in Federal or other immediately available funds at such address as shall be supplied to the Railroad by the assignee.

ARTICLE 5. Taxes. All payments to be made by the Railroad hereunder or by the Vendor under Article 3 hereof will be free of expense to the Vendor for collection or other charges and will be free of expense to the Vendor with respect to the amount of any local, state, federal or foreign taxes (other than net income, gross receipts [except gross receipts taxes in the nature of or in lieu of sales or use taxes], excess profits and similar taxes) or license fees, assessments, charges, fines or penalties hereafter levied or imposed upon or in connection with or measured by, this Agreement or any sale, use, payment, shipment, delivery or transfer of title under the terms hereof (all such expenses, taxes, license fees, assessments, charges, fines and

penalties being hereinafter called "impositions"), all of which impositions the Railroad assumes and agrees to pay on demand. The Railroad will also pay promptly all impositions which may be imposed upon the Equipment or for the use or operation thereof or upon the earnings arising therefrom or upon the Vendor solely by reason of its ownership thereof and will keep at all times all and every part of the Equipment free and clear of all impositions which might in any way affect the title of the Vendor or result in a lien upon any part of the Equipment; provided, however, that the Railroad shall be under no obligation to pay any impositions of any kind so long as it is contesting in good faith and by appropriate legal proceedings such impositions and the non-payment thereof does not, in the opinion of the Vendor, adversely affect the property or rights of the Vendor in or to the Equipment or otherwise under this Agreement. If any such impositions shall have been charged or levied against the Vendor directly and paid by the Vendor, the Railroad shall reimburse the Vendor upon presentation of an invoice therefor, and any amounts so paid by the Vendor shall be secured by and under this Agreement. Such covenants of indemnity shall continue in full force and effect notwithstanding the full payment of all sums due under this Agreement or the satisfaction, discharge or termination of this Agreement in any manner whatsoever.

ARTICLE 6. Title to the Equipment. Upon a purchase of any unit or units of Equipment pursuant to Article 3 hereof, the Vendor shall and hereby does retain the full legal title to and property in such unit or units of the Equipment until the Railroad shall have made all its payments under this Agreement and shall have kept and performed all its agreements herein contained, notwithstanding the possession and use thereof by the Railroad as provided in this Agreement. Any and all additions to the Equipment and any and all replacements of the Equipment and of parts thereof, including such replacements as provided in Articles 8 and 9 hereof, and additions thereto shall constitute accessions to the Equipment and shall be subject to all the terms and conditions of this Agreement and included in the term "Equipment" as used in this Agreement.

Except as otherwise specifically provided in Article 8 hereof, absolute right to the possession of, title to and property in the Equipment shall pass to and vest in the Railroad without further transfer or action on the part of the Vendor on the date which is the later to occur of (i) the date on which the Series B Indebtedness, together with interest thereon, including any interest payable hereunder at the Overdue Rate, and all other amounts required to be paid by the Railroad as herein provided (other than amounts which may thereafter be payable pursuant to any obligation (an "Indemnity Obligation") of the Railroad hereunder to indemnify or reimburse the Vendor or the Investor which, as

provided herein, shall survive the termination of this Agreement) shall have been paid in full by the Railroad, and all other obligations herein contained shall have been performed by the Railroad, and (ii) the date on which all amounts payable pursuant to an Indemnity Obligation required to be paid on or before such date have been paid. However, the Vendor, if so requested by the Railroad at that time, will (a) execute a bill or bills of sale for the Equipment transferring its title thereto and property therein to the Railroad, or upon its order, free of all liens, security interests and other encumbrances created or retained hereby and deliver such bill or bills of sale to the Railroad at its address referred to in Article 22 hereof, (b) execute and deliver at the same place, for filing, recording or depositing in all necessary public offices, such instrument or instruments in writing as may be necessary or appropriate in order then to make clear upon the public records the title of the Railroad to the Equipment and (c) pay to the Railroad any money paid to the Vendor pursuant to Article 8 hereof and not theretofore applied as therein provided. The Vendor shall not be responsible for the payment of any penalty or damages for failure to execute and deliver such bill or bills of sale or instrument or instruments or to file any certificate of payment in compliance with any law or statute requiring the filing of the same, except for failure to execute and deliver such bill or bills of sale or instrument or instruments or to file such certificate within a reasonable time after written demand by the Railroad.

ARTICLE 7. Marking of the Equipment. The Railroad will cause each unit of the Equipment to be kept numbered with its identifying number as set forth in Schedule A hereto, or in the case of Equipment not there listed such identifying number as shall be set forth in any amendment or supplement hereto extending this Agreement to cover such Equipment, and will keep and maintain, plainly, distinctly, permanently and conspicuously marked on each side of each unit, in letters not less than one inch in height, the words "Ownership Subject to a Security Interest Filed with Interstate Commerce Commission" or other appropriate markings approved by the Vendor, with appropriate changes thereof and additions thereto as from time to time may be required by law in order to protect the Vendor's title to and property in the Equipment and its rights under this Agreement. The Railroad hereby covenants to make such marking on each unit of Equipment promptly and in any case prior to the delivery and sale thereof to the Vendor pursuant to Article 3 hereof and to replace promptly any such markings which may be removed, defaced or destroyed. The Railroad will not change the number of any unit of the Equipment except in accordance with a statement of new number or numbers to be substituted therefor, which statement previously shall have been filed with the Vendor by the Railroad and filed, recorded and deposited by the Railroad in all public offices where this

Agreement and any financing statement in respect of the Equipment shall have been filed, recorded and deposited.

Except as provided in the immediately preceding paragraph, the Railroad will not allow the name of any person, association or corporation to be placed on any unit of the Equipment as a designation that might be interpreted as a claim of ownership; provided, however, that the Railroad may cause the Equipment to be lettered with the names or initials or other insignia of the Railroad or its affiliates (as defined in Article 11 hereof).

ARTICLE 8. Prepayment of Series B Indebtedness; Replacement Equipment.

A. Casualty Occurrences. In the event that any unit of the Equipment shall be worn out, lost, stolen, destroyed, irreparably damaged or otherwise rendered permanently unfit for use from any cause whatsoever, or possessed or controlled by any person (other than an affiliate as defined in Article 11 hereof) without the Railroad's consent for more than 30 days (provided that such possession or control did not originate from an event or act which would constitute an Event of Default under clause (k) of Article 16 hereof), or taken or requisitioned by condemnation or otherwise or confiscated, attached, impounded, seized, or held by any foreign governmental authority for any cause whatsoever and not released, pursuant to a final, non-appealable order or act, into the custody of the Railroad for a period of 30 days following such confiscation, attachment, impoundment, seizure or holding (such occurrences being hereinafter called "Casualty Occurrences"), the Railroad shall (i) promptly (after it has knowledge of such Casualty Occurrence) and fully inform the Vendor in writing in regard thereto, (ii) within 90 days after the Railroad has knowledge of such event, file with the Vendor an Officers' Certificate setting forth the Replacement Value of each unit of the Equipment having suffered a Casualty Occurrence and, (iii) subject to the provisions of subparagraph B of this Article 8, on the Interest Payment Date next succeeding the date of filing of such certificate prepay a principal amount of Series B Indebtedness (after payment of interest thereon due on such date) equal to the aggregate Replacement Value as of the date of such payment of such unit or units of the Equipment having suffered a Casualty Occurrence, together with all accrued interest on such sum so being prepaid, but without premium.

B. Substitution of Equipment in Lieu of Prepayment. If and so long as no Event of Default (as defined in Article 16 hereof) shall have occurred and be continuing hereunder, in lieu of making all or any portion of any prepayment of the Series B Indebtedness as provided in the preceding subparagraph A of this Article 7, the Railroad

may, on or before the applicable date for payment, cause to be transferred to the Vendor a replacement unit or units of equipment consisting of locomotives of the same or superior capacity and quality as compared to the units of Equipment having suffered a Casualty Occurrence first put into service by the first user thereof or remanufactured no earlier than July 24, 1987, and receive credit against the principal amount of Series B Indebtedness it would otherwise have been required to prepay in an amount equal to the value thereof. The value of any unit or units of replacement equipment shall be equal to the cost thereof, if new, as specified in the invoice therefor delivered to the Vendor or, if not new, the lesser of (y) the Fair Market Value (as defined below) thereof or (z) the original cost thereof less depreciation at a rate equal to 1/10th of such cost for each year in service, and such unit or units of replacement equipment shall have a remaining useful life at least as long as that which the unit of Equipment being replaced would have had but for the Casualty Occurrence. In connection with the transfer to the Vendor of any unit of replacement equipment pursuant to this subparagraph B, the Railroad will deliver to the Vendor and the Investor an Officers' Certificate certifying as to the remaining useful life of such unit to the effect set forth in the preceding sentence.

For purposes of this Agreement, "Fair Market Value" means an amount determined on the basis of, and equal in amount to, the value which would be obtained in an arm's-length transaction between an informed and willing purchaser under no compulsion to buy and an informed and willing seller under no compulsion to sell. In such determination with respect to replacement equipment it shall be assumed that the unit of replacement equipment is in the United States and is of the same or superior capacity and quality as compared to the unit of Equipment having suffered a Casualty Occurrence. Fair Market Value shall be determined in accordance with the provisions of Paragraph 11 of the Finance Agreement.

In case the Railroad elects so to transfer replacement equipment to the Vendor in lieu of making all or any part of any prepayment of the Series B Indebtedness, the Railroad shall deliver to the Vendor at or after the time of such replacement and prior to the applicable payment date an Officers' Certificate as to compliance with the foregoing provisions of this subparagraph B. Such certificate shall be accompanied by an opinion of counsel, addressed to the Vendor, covering the matters set forth in the first paragraph of subparagraph D below.

C. Prepayments; Definitions of Replacement Value.

In case any money is applied to prepay Series B Indebtedness pursuant to this Article 8, it shall be credited against the last installment of the aggregate Series B Indebtedness thereafter falling due and, to the extent of any excess of such prepayment over the last installment, the next preceding installments, in whole or in part, provided that any such installment shall be credited in whole before the next preceding installment is credited.

The Replacement Value of each unit of the Equipment (other than a replacement unit) shall be deemed to be that amount which bears the same ratio to the Actual Unit Price thereof as the unpaid Series B Indebtedness (without giving effect to any prepayments then or theretofore made pursuant to this Article 8) as of the date payment is made with respect to the applicable Casualty Occurrence bears to the original Series B Indebtedness. The "Actual Unit Price" of a unit of Equipment is the amount which bears the same ratio to the aggregate of the Actual Purchase Prices previously paid by the Vendor as the Invoiced Purchase Price of such unit bears to the aggregate of the Invoiced Purchase Prices of all units previously delivered to the Vendor under Article 3 hereof. The Replacement Value of each replacement unit shall be deemed to be that amount which bears the same ratio to the value thereof (determined as provided in subparagraph B of this Article 8) as the unpaid Series B Indebtedness (without giving effect to any prepayments then or theretofore made pursuant to this Article 8) as of the date payment is made with respect to such Casualty Occurrence bears to the unpaid Series B Indebtedness (without giving effect to any such prepayments) as of the date of acquisition by the Vendor of such replacement unit.

D. Title to Replacement Units. The Railroad will cause any replacement unit or units to be marked as provided in Article 7 hereof. Any and all replacements of Equipment shall constitute accessions to the Equipment and shall be subject to all appropriate terms and conditions of this Agreement as though part of the original Equipment delivered hereunder and shall be included in the term "Equipment" as used in this Agreement. Title to all such replacement units shall be free and clear of all liens and encumbrances except the liens permitted by the second paragraph of Article 12 hereof and shall be taken initially and shall remain in the name of the Vendor subject to the provisions hereof, and the Railroad shall execute, acknowledge, deliver, file, refile, record or deposit all such documents, financing statements or continuation statements and do any and all such acts as may be necessary to cause such replacement units to come under and be subject to this Agreement and to protect the rights of the Vendor hereunder and its status as first priority lienholder with respect to such replacement units. All such replacement units shall be guaranteed and warranted

in like manner as is customary at the time for similar equipment.

In order to facilitate the sale or other disposition of any Equipment suffering a Casualty Occurrence in respect of which the Railroad shall have paid to the Vendor the Replacement Value and/or shall have caused to be transferred to the Vendor replacement equipment the Vendor shall, upon request of the Railroad, execute and deliver to the Railroad or the Railroad's vendee, assignee or nominee, a bill of sale (without warranties) for such Equipment, and such other documents as may be required to release such Equipment from the terms and scope of this Agreement, in such form as may be reasonably requested by the Railroad.

E. Payment of Insurance Proceeds. Upon (i) the prepayment in full of the principal amount of the Series B Indebtedness required to be prepaid pursuant to subparagraph A of this Article 8, or (ii) the transfer of replacement equipment to the Vendor in lieu of making all or any part of such prepayment of the Series B Indebtedness pursuant to subparagraph B of this Article 8 together with, in the case of a transfer of replacement equipment in lieu of making a part of such prepayment, the payment by the Railroad of the balance of such required prepayment to the Vendor, in each case accompanied by such Officers' Certificate or opinion of counsel as required in this Article 8 in connection therewith, the Vendor shall forthwith pay to the Railroad the proceeds of insurance in respect of the unit or units of Equipment having suffered a Casualty Occurrence that the Vendor has received pursuant to Article 9 hereof.

ARTICLE 9. Maintenance; Compliance with Laws and Rules. The Railroad will at all times maintain the Equipment or cause the Equipment to be maintained in good order and repair, with such replacements of parts thereof as may be necessary, at its own expense. The Railroad hereby covenants that all such maintenance, repairs and replacements of parts with respect to any of the units of Equipment will be effected in such manner that, after giving effect thereto, its Fair Market Value (as determined by the Railroad without resort to the appraisal procedure set forth in Paragraph 11 of the Finance Agreement) will be equal to or greater than the Invoiced Purchase Price thereof less depreciation at a rate equal to 1/10th of such price for each year in service subsequent to its delivery pursuant to Article 2 hereof.

During the term of this Agreement, the Railroad will at all times comply in all respects with all laws of the jurisdictions in which its operations involving the Equipment may extend, with the interchange rules of the Association of American Railroads and with all lawful rules of the Department of Transportation, Interstate Commerce Commission and any other legislative, executive, adminis-

trative or judicial body exercising any power or jurisdiction over the Equipment, to the extent that such laws and rules affect the title, operation or use of the Equipment, and in the event that such laws or rules require any alteration, replacement or addition of any part on any unit of the Equipment, the Railroad will conform therewith, at its own expense; provided, however, that the Railroad may, in good faith, contest the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Vendor, adversely affect the property or rights of the Vendor under this Agreement. The Railroad will at all times prior to the payment in full of the Series B Indebtedness, together with interest thereon and all other payments required hereby, at its own expense, carry and maintain insurance in respect of the Equipment at the time subject hereto, and public liability insurance, naming the Vendor as the payee under all such insurance (subject to subparagraph E of Article 8 hereof), in amounts and against risks customarily insured against by railroad companies in respect of similar equipment, and in any event in amounts and against risks comparable to those insured against by the Railroad on similar equipment owned by it.

ARTICLE 10. Reports and Inspections. On or before March 31 in each year, commencing with the calendar year 1988, the Railroad shall furnish to the Vendor an Officers' Certificate (a) setting forth as at the preceding December 31 the amount, description and numbers of all units of the Equipment that have suffered a Casualty Occurrence during the preceding calendar year (or since the date of this Agreement in the case of the first such statement) or that have been withdrawn from use pending repairs (other than running repairs) or any substantial modification and such other information regarding the condition and state or repair of the Equipment as the Vendor may reasonably request, (b) stating that, as at the preceding December 31, the aggregate Fair Market Value of all units of the Equipment is equal to or greater than the aggregate of the Invoiced Purchase Price of each such unit of Equipment less depreciation at a rate equal to 1/10th of such price for each year that such unit has been in service subsequent to its delivery pursuant to Article 2 hereof and (c) stating that, in the case of all Equipment repaired, modified or repainted during the period covered by such statement, the numbers and markings required by Article 7 hereof have been preserved or replaced. The Vendor shall have the right, by its agents, to inspect the Equipment and the Railroad's records with respect thereto at such reasonable times as the Vendor may request during the term of this Agreement.

ARTICLE 11. Possession and Use. The Railroad, so long as an Event of Default shall not have occurred under this Agreement and be continuing, shall be entitled to the possession of the Equipment and the Railroad and any affiliate shall have the full right of use thereof by lease or otherwise upon the railroad lines owned or operated by it either alone or jointly with others and whether under lease or otherwise, or upon the lines of railroad owned or operated by any affiliate, or over which it has trackage rights, or upon the lines of connecting and other carriers in the usual interchange of traffic or pursuant to run-through agreements, from and after sale of the Equipment by the Vendor to the Railroad, but only upon and subject to all the terms and conditions of this Agreement, and the Railroad may receive compensation for such use; provided, however, that the Railroad agrees not to use, assign or permit the assignment of any unit of the Equipment to service involving the regular operation and maintenance thereof outside the United States of America and agrees that any use of any unit of the Equipment outside the United States of America will be limited to incidental and temporary use in Canada or Mexico. The word "affiliate", as used in this Article 11 and in Article 7 thereof, shall mean a railroad corporation organized under the laws of the United States of America or of any state thereof or of the District of Columbia which, directly or indirectly controls, or is controlled by, or is under common control with, the Railroad.

ARTICLE 12. Prohibition Against Liens. The Railroad will pay or discharge any and all sums claimed by any party from, through or under the Railroad or its successors or assigns which, if unpaid, might become a lien, charge or security interest on the Equipment, or any unit or part thereof; provided, however, that the Railroad shall be under no obligation to pay or discharge any such claim so long as it is contesting in good faith and by appropriate legal proceedings such claim and the nonpayment thereof does not, in the opinion of the Vendor, adversely affect the property or rights of the Vendor in or to the Equipment or such unit or part thereof or otherwise under this Agreement; provided further, however, that the Railroad shall have maintained a reserve for such claims in accordance with generally accepted accounting principles ("GAAP"). If any such claims shall have been made against the Vendor directly and paid by the Vendor, or if any amounts shall have been paid by the Vendor in discharge of liens, charges or security interests upon the Equipment, the Railroad shall reimburse the Vendor upon presentation of an invoice therefor, and any amounts so paid by the Vendor shall be secured by and under this Agreement; provided, however, that prior to paying any such claim, Vendor shall give notice thereof to the Railroad and afford the Railroad a reasonable opportunity to consult with the Vendor as to the appropriate response to such claim; and provided further, however, that the Vendor shall not be

bound by any such consultation and that such consultation or Vendor's refusal to be bound thereby shall not affect Vendor's right to reimbursement under this Article 12. Such covenant of reimbursement shall continue in full force and effect notwithstanding the full payment of all sums due under this Agreement or the satisfaction, discharge or termination of this Agreement in any manner whatsoever.

This covenant will not be deemed breached by reason of liens for taxes, assessments or governmental charges or levies, in each case not due and delinquent, or undetermined or inchoate materialmen's, mechanics', workmen's, repairman's or other like liens arising in the ordinary course of business and, in each case, not delinquent.

ARTICLE 13. Railroad's Indemnities. The Railroad agrees to indemnify, protect and hold harmless the Vendor from and against all losses, damages, injuries, liabilities, claims and demands whatsoever, regardless of the cause thereof, and expenses in connection therewith, including reasonable counsel fees, arising out of retention by the Vendor of title to the Equipment, the use and operation thereof by the Railroad during the period when title thereto remains in the Vendor or the transfer of title to the Equipment by the Vendor pursuant to any of the provisions of this Agreement. This covenant of indemnity shall continue in full force and effect notwithstanding the full payment of all sums due under this Agreement, or the satisfaction, discharge or termination of this Agreement in any manner whatsoever.

Without limiting the generality of the foregoing, the Railroad agrees to indemnify, protect and hold harmless the Vendor from and against any and all liability, claims, costs, charges and expenses, including royalty payments and counsel fees, in any manner imposed upon or accruing against the Vendor, its assigns or the users of the Equipment because of the use in or about the construction or operation of any of the Equipment of any design, system, process, formula, combination, article or material which infringes or is claimed to infringe on any patent or other right. With respect to patent infringement actions, upon prompt notification in writing, Railroad shall defend, or may settle, at its expense, any suit or proceeding against the Vendor so far as based on a claimed infringement on or by the Equipment and Railroad shall pay all damages and costs awarded therein against the Vendor due to such breach. In case any unit of Equipment supplied by Railroad or part thereof is in any suit or proceeding based on a claimed infringement on or by the Equipment found to constitute such an infringement and the use of such unit of Equipment or part thereof is enjoined, Railroad shall, at its expense but at the Vendor's option (promptly communicated to the Railroad by written notice), either promptly procure for itself the right to

continue using said unit of Equipment or part thereof, or replace such unit within six months of such injunction with noninfringing equipment or part or modify such unit so it becomes noninfringing (but in each case without impairing the operational capability of such unit or units of Equipment), or promptly remove such unit of Equipment and refund to the Vendor the Replacement Value thereof; provided, however, that prior to exercising such option, Vendor shall give notice thereof to the Railroad and afford the Railroad a reasonable opportunity to consult with the Vendor as to the appropriate option to choose; and provided further, however, that the Vendor shall not be bound by any such consultation and that such consultation or Vendor's refusal to be bound thereby shall not affect Vendor's right to indemnification under this Article 13. Any equipment used to replace a unit of Equipment under this paragraph shall satisfy the requirements applicable to replacement equipment under paragraph B of Article 8 hereof and shall have a Fair Market Value at least equal to the Invoiced Purchase Price of the unit of Equipment replaced by it less depreciation at a rate equal to 1/10th of such price for each year that the replaced unit has been in service subsequent to its delivery under Article 2 hereof. Any transfer of equipment used to replace a unit of Equipment under this paragraph shall comply with the requirements as to transfer of replacement equipment to the Vendor under Article 8 hereof. The Railroad agrees to and hereby does, to the extent legally possible without impairing any claim, right or cause of action hereinafter referred to, assign, set over and deliver to the Vendor every claim, right and cause of action which the Railroad has or hereafter shall have against the seller or sellers of any designs, systems, processes, formulae, combinations, articles or materials specified by the Vendor and purchased or otherwise acquired by the Railroad for use in or about the construction or operation of any of the Equipment on the ground that any such design, system, process, formula, combination, article or material or operation thereof infringes or is claimed to infringe on any patent or other right. The Railroad further agrees to execute and deliver to the Vendor or the users of the Equipment all and every such further assurance as may be reasonably requested by the Vendor more fully to effectuate the assignment and delivery of every such claim, right and cause of action. The Railroad will give notice to the Vendor of any claim known to the Railroad from which liability may be charged against the Vendor hereunder and the Vendor will give notice to the Railroad of any claim known to the Vendor from which liability may be charged against the Railroad hereunder. Such covenants of indemnity shall continue in full force and effect notwithstanding the full payment of all sums due under this Agreement, or the satisfaction, discharge or termination of this Agreement in any manner whatsoever.

ARTICLE 14. Representations and Warranties of the Railroad. The Railroad hereby represents and warrants, as of the date hereof, to the Vendor:

(a) ORGANIZATION AND QUALIFICATION. The Railroad is a corporation duly organized and existing in good standing under the laws of the State of Delaware, the Railroad has the corporate power to own its property and to carry on its business as now being conducted, and the Railroad is duly qualified or otherwise authorized as a foreign corporation to do business and in good standing in every jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary. The Railroad has either built or acquired its railroad lines prior to the Interstate Commerce Commission ("ICC") acquiring jurisdiction over the same or has been issued by the ICC all certificates of public convenience and necessity required for the operation and/or construction of the Railroad's railroad lines, and all such certificates are currently in full force and effect, save and except those involving abandonment, discontinuance or sale proceedings in the ordinary course of business.

(b) VALID AND BINDING OBLIGATIONS. The Railroad has the corporate power and authority to enter into this Agreement and the Finance Agreement and to perform its obligations hereunder and thereunder; this Agreement and the Finance Agreement have been duly authorized, executed and delivered by the Railroad and, assuming the due authorization, execution and delivery hereof and thereof by the other parties hereto and thereto, constitute the Railroad's valid and binding obligations, enforceable in accordance with their respective terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditors' rights and to general equity principles. The certificate of interest ("Certificate of Interest") issued under the Finance Agreement is entitled to the benefits of the Finance Agreement.

(c) NO CONFLICTING REQUIREMENTS. The Railroad is not in violation of or in default under any term or provision of any charter, by-law, partnership agreement, mortgage, indenture, agreement, instrument, statute, rule, regulation, judgment, decree, order, writ or injunction applicable to it, such that such violations or defaults might materially and adversely affect the ability of the Railroad to perform its obligations under this Agreement or the Finance Agreement.

(d) ACTIONS PENDING. There is no action, suit, investigation or proceeding pending or, to the knowledge of the Railroad, threatened against the Railroad or any properties or rights of the Railroad or any of its Subsidiaries, by or before any court, arbitrator or administrative or governmental body which might materially and adversely affect the ability of the Railroad to perform its obligations under this Agreement or the Finance Agreement or which brings into question the authenticity, validity or enforceability, in any respect material to the Vendor, of (1) any sale of any Certificate of Interest pursuant to the Finance Agreement, (2) any sale pursuant to Article 3 hereof, (3) any sale pursuant to Article 4 hereof, (4) any other transactions contemplated by this Agreement or the Finance Agreement, (5) the acquisition or ownership by the Vendor of title to, or a first priority security interest in, the Equipment hereunder or (6) any certificates and any other documents or instruments referred to in this Agreement or the Finance Agreement.

As used herein, "Subsidiary" shall mean any corporation organized under the laws of any State of the United States of America or under the laws of any country except the United States of America or a political subdivision of any such country at least 51% of the total combined voting power of all classes of voting stock of which shall, at the time as of which any determination is being made, be owned by the Railroad and over which the Railroad has effective control, as evidenced by the power to direct or cause the direction of the management and policies of such corporation.

(e) CONFLICTING AGREEMENTS AND OTHER MATTERS. The Railroad is not a party to any contract or agreement or subject to any charter or other corporate restriction which materially and adversely affects its business, property or assets, or financial condition. Neither the execution nor delivery of this Agreement or the Finance Agreement, nor the offering, issuance and sale of the Certificate of Interest, nor fulfillment of nor compliance with the terms and provisions hereof or thereof will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any lien upon any of the properties or assets of the Railroad pursuant to, the charter or by-laws of the Railroad, any award of any arbitrator or any agreement (including any agreement with stockholders), instrument, order, judgment, decree, statute, law, rule or regulation to which the Railroad is a party or otherwise subject.

(f) GOVERNMENTAL CONSENT. Neither the nature of the Railroad nor any of its businesses or properties, nor any relationship between the Railroad and any other person, nor any circumstances in connection with the execution and delivery of this Agreement, the Finance Agreement or the offering, issuance, sale or delivery of the Certificate of Interest is such as to require any authorization, consent, approval, exemption or other action by or notice to or filing with any court or administrative or governmental body (other than routine filings after the date of closing with the Interstate Commerce Commission, the Securities and Exchange Commission and/or state Blue Sky authorities) in connection with the execution and delivery of this Agreement, the Finance Agreement or the offering, issuance, sale or delivery of the Certificate of Interest or fulfillment of or compliance with the terms and provisions hereof or thereof, or, if any such authorization, consent, approval, exemption or other action or notice or filing is necessary, it has been obtained, given or made.

(g) DISCLOSURE. Neither this Agreement nor any schedule attached hereto nor any other document, certificate or statement furnished to the Vendor by or on behalf of the Railroad in connection herewith contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein not misleading. There is no fact peculiar to the Railroad which materially adversely affects or in the future may (so far as the Railroad can now reasonably foresee) materially adversely affect the business, property or assets, or financial condition of the Railroad and which has not been set forth in this Agreement or any schedule hereto or in the other documents, certificates and statements furnished to the Vendor by or on behalf of the Railroad prior to the date hereof in connection with the transactions contemplated hereby.

ARTICLE 15. Assignments, etc. The Railroad shall not sell, assign, transfer or otherwise dispose of its rights under this Agreement to any other entity and it shall not, and shall not permit any Subsidiary to, sell or lease any of its or such Subsidiary's assets or enter into any merger agreement with or combination with or into any other entity, in each case, without the prior written consent of the Vendor, unless (i) immediately after giving effect to such assignment, sale or lease, merger or combination, each entity which is a prime obligor or guarantor under this Agreement and the Finance Agreement shall be a Class 1 railroad the Philadelphia Plan Equipment Trust Certificates of which are publicly rated Single A or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation, (ii)

each prime obligor or guarantor under this Agreement and the Finance Agreement referred to in the preceding clause (i) (other than the Railroad) which meet the criteria set forth in such clause (i) shall, by execution of an appropriate instrument satisfactory to the Vendor, assume and agree to perform each and all of the obligations and covenants of the Railroad under this Agreement and the Finance Agreement and (iii) prior to and immediately after giving effect to such transaction, no Event of Default (as defined in Article 16 hereof) or Default (as defined in Article 3 hereof) shall exist. Except as the result of an assignment of this Agreement pursuant to the preceding sentence or as provided in Article 11 hereof, Railroad shall not lease or transfer the right to possession of any unit of Equipment.

All or any of the rights, benefits and advantages of the Vendor under this Agreement, including the right to receive the payments herein provided to be made by the Railroad, may be assigned by the Vendor and reassigned by any assignee at any time or from time to time. No such assignment shall subject any assignee to, or relieve the Railroad from, any of the obligations of the Railroad to the Vendor hereunder.

Upon any such assignment either the assignor or the assignee shall give written notice to the Railroad, together with a counterpart or copy of such assignment, stating the identity and post office address of the assignee, and such assignee shall by virtue of such assignment acquire all the assignor's right, title and interest in and to the Equipment and this Agreement, or in and to a portion thereof, as the case may be, subject only to such reservations as may be contained in such assignment. From and after the receipt by the Railroad of the notification of any such assignment, all payments thereafter to be made by the Railroad under this Agreement shall, to the extent so assigned, be made to the assignee in such manner as it may direct.

The Railroad expressly represents, for the purpose of assurance to any person, firm or corporation considering the acquisition of this Agreement or of all or any of the rights of the Vendor hereunder and for the purposes of inducing such acquisition, that in the event of such assignment by the Vendor as hereinbefore provided, the rights of such assignee to the entire unpaid Series B Indebtedness or such part thereof as may be assigned, together with interest thereon, as well as any other rights hereunder which may be so assigned, shall not be subject to any defense, setoff, counterclaim or recoupment whatsoever except for such as may arise out of any breach of any obligation of the Vendor with respect to payments under Article 3 hereof.

The Railroad will (a) in connection with each settlement for the Equipment subsequent to such assignment, deliver to the assignee, at least five business days prior to the Closing Date for the Group fixed in the notice by the Vendor, all documents (in addition to the Requisite Documents) required by the terms of such assignment to be delivered to such assignee in connection with such settlement, in such number of counterparts or copies as may reasonably be requested, except for any opinion of counsel for such assignee, and (b) furnish to such assignee such number of counterparts of any other certificate or paper required by the Vendor as may reasonably be requested.

ARTICLE 16. Defaults. In the event that any one or more of the following events of default ("Events of Default") shall occur and be continuing, to wit:

(a) the Railroad shall fail to pay in full any installment of the aggregate Series B Indebtedness pursuant to Article 4 hereof or any amount owing to the Agent (as defined in the Finance Agreement) pursuant to subparagraph (a)(2) of Paragraph 5 of the Finance Agreement when the same shall become due; or

(b) the Railroad shall fail to make a prepayment of the Series B Indebtedness or transfer replacement equipment or effect a combination of both as required by Article 8 hereof when such action shall become due; or

(c) the Railroad shall fail to pay in full any interest on the Series B Indebtedness or any interest payable pursuant to subparagraph (c)(2) of Paragraph 5 of the Finance Agreement or any other sum (other than those described in subparagraphs (a) and (b) of this Article 16) payable by the Railroad as provided in this Agreement or in the Finance Agreement within five days after payment thereof shall be due hereunder; or

(d) the Railroad shall, for more than 30 days after the Vendor shall have demanded in writing performance thereof or compliance therewith, fail or refuse to comply with any covenant, agreement, term or provision of this Agreement or of any agreement, including the Finance Agreement, entered into concurrently herewith relating to the financing of the Equipment on its part to be kept or performed or to make provisions satisfactory to the Vendor for such compliance; or

(e) any representation or warranty made by the Railroad herein or in Paragraph 9 of the Finance Agreement or in any writing furnished in connection with or pursuant to this Agreement shall be false in any material respect on the date as of which made; or

(f) any decree or order for relief in respect of the Railroad is entered under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law, whether now or hereafter in effect (herein called the "Bankruptcy Law") of any jurisdiction; or

(g) the Railroad makes an assignment for the benefit of creditors or is generally not paying its debts as such debts become due, or petitions or applies to any tribunal for, or consents to, the appointment of, or taking possession by, a trustee, receiver, custodian, liquidator or similar official, of the Railroad, or of any substantial part of the assets of the Railroad, or commences a voluntary case under the Bankruptcy Law of the United States or any proceedings (other than proceedings for the voluntary liquidation and dissolution of a Subsidiary) relating to the Railroad under the Bankruptcy Law of any other jurisdiction; or

(h) any such petition or application is filed, or any such proceedings are commenced, against the Railroad and the Railroad by any act indicates its approval thereof, consent thereto or acquiescence therein, or an order, judgment or decree is entered appointing any such trustee, receiver, custodian, liquidator or similar official, or approving the petition in any such proceedings, and such order, judgment or decree remains unstayed and in effect for more than 30 days; or

(i) any order, judgment or decree is entered in any proceedings against the Railroad decreeing the dissolution of the Railroad and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(j) any order, judgment or decree is entered in any proceedings involving the Railroad decreeing a split-up of the Railroad which requires the divestiture of assets representing a substantial part, or the divestiture of the stock of a Subsidiary whose assets represent a substantial part, of the consolidated assets of the Railroad and its Subsidiaries (determined in accordance with generally accepted accounting principles) or which requires the divestiture of assets, or stock of a Subsidiary, which shall have contributed a substantial part of Consolidated Net Earnings (as de-

fined below) for any of the three fiscal years then most recently ended, and such order, judgment or decree remains unstayed and in effect for more than 60 days; provided, however, that such order, judgment or decree shall not constitute an Event of Default hereunder if, after giving effect thereto, each entity which is a prime obligor or guarantor under this Agreement and the Finance Agreement shall be a Class 1 railroad the Philadelphia Plan Equipment Trust Certificates of which are publicly rated Single A or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation; or

(k) the Railroad shall make or suffer any unauthorized assignment or transfer of this Agreement or the Finance Agreement or any interest herein or any unauthorized transfer of the right to possession of any unit of the Equipment; or

then, (1) if such an Event of Default is an event specified in clause (f), (g), (h), (i) or (j) of this Article 16 (each an "Automatic Event of Default"), the entire Series B Indebtedness, together with any interest thereon then accrued and unpaid shall become automatically due and payable without presentment, demand, protest or notice of any kind, all of which are hereby waived by the Railroad, and (2) if such an Event of Default is an event specified in any other clause of this Article 16, at any time after the occurrence of such an Event of Default the Vendor may, upon written notice to the Railroad and upon compliance with any mandatory legal requirements then in force and applicable to such action by the Vendor, declare (hereinafter called a "Declaration of Default") the entire Series B Indebtedness, together with the interest thereon then accrued and unpaid and together with the Yield Maintenance Premium (as hereinafter defined), immediately due and payable, without further presentment, demand, protest, or other notice of any kind, all of which are hereby waived by the Railroad, provided that the Yield-Maintenance Premium shall be due and payable upon such Declaration of Default only if (x) such event is an Event of Default specified in any of clauses (a) to (e), inclusive, and (k) of this Article 16, (y) the Vendor shall have given to the Railroad, at least 10 business days before such Declaration of Default, written notice stating its intention so to declare the Series B Indebtedness to be immediately due and payable and identifying one or more such Events of Default whose occurrence on or before the date of such notice permits such declaration and (z) one or more of the Events of Default so identified shall be continuing at the time of such declaration, provided further that the Yield Maintenance Premium will be paid only to the extent, when combined with any other payments required to be made hereunder, permitted under applicable usury laws. Upon an automatic acceleration as provided above or a Declaration of Default and thereafter, in each case the aggregate of the

unpaid balance of such indebtedness and interest and Yield Maintenance Premium, if any and if applicable, shall bear interest ("Overdue Interest") from the date of such automatic acceleration or Declaration of Default, as the case may be, at the Overdue Rate, to the extent legally enforceable. The Vendor shall thereupon be entitled to recover judgment for the entire unpaid balance of the Series B Indebtedness so payable, with interest and Yield Maintenance Premium, if any and if applicable, and with any Overdue Interest as aforesaid, and to collect such judgment out of any property of the Railroad wherever situated. The Railroad shall promptly notify the Vendor of any event which has come to its attention which constitutes, or which with the giving of notice and/or lapse of time could constitute, an Event of Default under this Agreement.

The Vendor may at its election waive any such Event of Default and its consequences and rescind and annul any Declaration of Default by notice to the Railroad in writing to that effect, and thereupon the respective rights of the parties shall be as they would have been if no such Event of Default had occurred and no Declaration of Default had been made. Notwithstanding the provisions of this paragraph, it is expressly understood and agreed by the Railroad that time is of the essence of this Agreement and that no such waiver, rescission or annulment shall extend to or affect any other or subsequent default or impair any rights or remedies consequent thereon.

"Called Principal" shall mean, with respect to the Series B Indebtedness, the principal that is declared to be immediately due and payable pursuant to this Article 16.

"Consolidated Net Earnings" shall mean consolidated gross revenues of the Railroad and its Subsidiaries less all operating and non-operating expenses of the Railroad and its Subsidiaries including all charges of a proper character (including current and deferred taxes on income, provision for taxes on unremitted foreign earnings which are included in gross revenues, and current additions to reserves), but not including in gross revenues any gains (net of expenses and taxes applicable thereto) in excess of losses resulting from the sale, conversion or other disposition of capital assets (i.e., assets other than current assets), any gains resulting from the write-up of assets (other than the write-up of current assets as a result of revaluations or realignment of currencies), any equity of the Railroad or any Subsidiary in the unremitted earnings of any corporation which is not a Subsidiary, any earnings of any person acquired by the Railroad or any Subsidiary through purchase, merger or consolidation or otherwise for any year prior to the year of acquisition, or any deferred credit representing the excess of equity in any Subsidiary

at the date of acquisition over the cost of the investment in such Subsidiary; all determined in accordance with GAAP.

"Discounted Value" shall mean, with respect to the Called Principal of the Series B Indebtedness, the amount calculated by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on a semiannual basis) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" shall mean, with respect to the Called Principal of the Series B Indebtedness, the yield to maturity implied by the Treasury Constant Maturity Series yields reported (for the latest day for which such yields shall have been so reported as of the business day next preceding the Settlement Date with respect to such Called Principal) in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the remaining weighted average life to final maturity (calculated in accordance with accepted financial practice) of such Called Principal as of such Settlement Date. Such implied yield shall be determined (a) by calculating the remaining weighted average life to final maturity of such Called Principal rounded to the nearest quarter-year and (b) if necessary, by interpolating linearly between Treasury Constant Maturity Series yields.

"Remaining Scheduled Payments" shall mean, with respect to the Called Principal of the Series B Indebtedness, all payments of such Called Principal and interest thereon that would be due on or after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date.

"Settlement Date" shall mean, with respect to the Called Principal of the Series B Indebtedness, the date on which such Called Principal is declared to be immediately due and payable pursuant to this Article 16.

"Yield-Maintenance Premium" shall mean, with respect to the Series B Indebtedness, a premium equal to the excess, if any, of the Discounted Value of the Called Principal of the Series B Indebtedness over the sum of such Called Principal plus interest accrued thereon as of (including interest due on) the Settlement Date with respect to such Called Principal. The Yield-Maintenance Premium shall be in no event be less than zero.

ARTICLE 17. Remedies. At any time during the continuance of an Automatic Event of Default or a Declaration of Default, the Vendor may, subject to compliance with any mandatory legal requirements then in force and applicable to the action to be taken by the Vendor, take or cause to be taken by its agent or agents immediate possession of the Equipment, or one or more of the units thereof, without liability to return to the Railroad any sums theretofore paid and free from all claims whatsoever, except as hereinafter in this Article 17 expressly provided, and may remove the same from possession and use of the Railroad or any other person and for such purpose may enter upon the Railroad's premises or any other premises where the Equipment may be located and may use and employ in connection with such removal any supplies, services and aids and any available trackage and other facilities or means of the Railroad.

In case the Vendor shall demand possession of the Equipment pursuant to this Agreement and shall reasonably designate a point or points upon the premises of the Railroad for the delivery of the Equipment to the Vendor, the Railroad shall, at its own expense, forthwith and in the usual manner (including, but not by way of limitation, giving prompt telegraphic and written notice to the Association of American Railroads and all railroads to which any part of the Equipment has been interchanged to return the Equipment so interchanged), cause (a) the Equipment to be moved to such point or points on its lines as shall be designated by the Vendor and shall there deliver the Equipment or cause it to be delivered to the Vendor and (b) the Equipment to be moved to such interchange point or points of the Railroad as shall be designated by the Vendor upon any sale, lease or other disposal of all or any part of the Equipment by the Vendor. At the option of the Vendor, the Vendor may keep the Equipment on any of the lines or premises of the Railroad until the Vendor shall have leased, sold or otherwise disposed of the same, and for such purpose the Railroad agrees to furnish, without charge for rent or storage, the necessary facilities at any point or points selected by the Vendor reasonably convenient to the Railroad and, at the Railroad's risk, to permit inspection of the Equipment by the Vendor, the Vendor's representatives and prospective purchasers and users. This agreement to deliver the Equipment and furnish facilities as hereinbefore provided is of the essence of the agreement between the parties, and, upon application to any court of equity having jurisdiction in the premises, the Vendor shall be entitled to a decree against the Railroad requiring specific performance hereof. The Railroad hereby expressly waives any and all claims against the Vendor and its agent or agents for damages of whatever nature in connection with any retaking of any unit of the Equipment in any reasonable manner.

At any time during the continuance of an Automatic Event of Default or a Declaration of Default, the Vendor (after retaking possession of the Equipment as hereinbefore in this Article 17 provided) may at its election and upon such notice as is hereinafter set forth retain the Equipment (and any insurance proceeds received by it pursuant to Article 9 hereof) in satisfaction of the entire Series B Indebtedness and make such disposition thereof as the Vendor shall deem fit. Written notice of the Vendor's election to retain the Equipment (and any such insurance proceeds) shall be given to the Railroad by telegram or registered mail, addressed as provided in Article 22 hereof, and to any other persons to whom the law may require notice, within 30 days after the occurrence of such Event of Default. In the event that the Vendor should elect to retain the Equipment (and any such insurance proceeds) and no objection is made thereto within the 30-day period described in the second proviso below, all the Railroad's rights in the Equipment (and any such insurance proceeds) shall thereupon terminate and all payments made by the Railroad may be retained by the Vendor as compensation for the use of the Equipment by the Railroad; provided, however, that if the Railroad, before the expiration of the 30-day period described in the proviso below, should pay or cause to be paid to the Vendor the total unpaid balance of the Series B Indebtedness, together with interest thereon accrued and unpaid, the Yield Maintenance Premium, if any, and Overdue Interest, if any, and all other payments due under this Agreement as well as expenses of the Vendor in retaking possession of, removing and storing the Equipment and the Vendor's reasonable attorneys' fees, then in such event absolute right to the possession of, title to and property in the Equipment shall pass to and vest in the Railroad (and any insurance proceeds received under Article 9 hereof shall be paid to the Railroad); provided, further, that if the Railroad or any other persons notified under the terms of this paragraph object in writing to the Vendor within 30 days from the receipt of notice of the Vendor's election to retain the Equipment, then the Vendor may retain such insurance proceeds but may not so retain the Equipment, but shall sell, lease or otherwise dispose of it or continue to hold it pending sale, lease or other disposition as hereinafter provided or as may otherwise be permitted by law. If the Vendor shall have given no notice to retain as hereinabove provided or notice of intention to dispose of the Equipment in any other manner, it shall be deemed to have elected to sell the Equipment in accordance with the provisions of this Article 17.

At any time during the continuance of an Automatic Event of Default or a Declaration of Default, the Vendor, with or without retaking possession thereof, at its election and upon reasonable notice to the Railroad and to any other persons to whom the law may require notice of the time and place, may sell the Equipment, or any unit thereof, free

from any and all claims of the Railroad or any other party claiming from, through or under the Railroad, at law or in equity, at public or private sale and with or without advertisement as the Vendor may determine; provided, however, that if, prior to such sale and prior to the making of a contract for such sale, the Railroad should tender full payment of the total unpaid balance of the Series B Indebtedness, together with interest thereon accrued and unpaid, the Yield Maintenance Premium, if any, and Overdue Interest, if any, and all other payments due under this Agreement as well as expenses of the Vendor in retaking possession of, removing, storing, holding and preparing the Equipment for, and otherwise arranging for, the sale and the Vendor's reasonable attorneys' fees, then in such event absolute right to the possession of, title to and property in the Equipment shall pass to and vest in the Railroad (and any insurance proceeds received under Article 9 hereof shall be paid to the Railroad). The proceeds of such sale, and any such insurance proceeds, less the attorney's fees and any other expenses incurred by the Vendor in retaking possession of, removing, storing, holding, preparing for sale and selling the Equipment, shall be credited on the amount due to the Vendor under the provisions of this Agreement.

Any sale hereunder may be held or conducted at such place or places and at such time or times as the Vendor may specify, in one lot and as an entirety or in separate lots and without the necessity of gathering at the place of sale the property to be sold, and in general in such manner as the Vendor may determine. The Vendor or the Railroad may bid for and become the purchaser of the Equipment, or any unit thereof, so offered for sale. The Railroad shall be given written notice of such sale not less than ten days prior thereto, by telegram or registered mail addressed to the Railroad as provided in Article 22 hereof. In the event that the Vendor shall be the purchaser of the Equipment, it shall not be accountable to the Railroad (except to the extent of surplus money received as hereinafter provided in this Article 17), and in payment of the purchase price therefor the Vendor shall be entitled to have credited on account thereof all or any part of the sums due to the Vendor from the Railroad hereunder. From and after the date of any such sale, the Railroad shall pay to the Vendor the per diem interchange for each unit of Equipment which shall not have been assembled, as hereinabove provided, by the date of such sale for each day from the date of such sale to the date of delivery to the purchaser at such sale.

Each and every power and remedy hereby specifically given to the Vendor shall be in addition to every other power and remedy hereby specifically given or now or hereafter existing at law or in equity, and each and every power and remedy may be exercised from time to time and simultaneously and as often and in such order as may be

deemed expedient by the Vendor. All such powers and remedies shall be cumulative, and the exercise of one shall not be deemed a waiver of the right to exercise any other or others. No delay or omission of the Vendor in the exercise of any such power or remedy and no renewal or extension of any payments due hereunder shall impair any such power or remedy or shall be construed to be a waiver of any default or an acquiescence therein. Any extension of time for payment hereunder or other indulgence duly granted to the Railroad shall not otherwise alter or affect the Vendor's rights or the Railroad's obligations hereunder. The Vendor's acceptance of any payment after it shall have become due hereunder shall not be deemed to alter or affect the Railroad's obligations or the Vendor's rights hereunder with respect to any subsequent payments or defaults in payments.

If, after applying all sums of money realized by the Vendor under the remedies herein provided, there shall remain any amount due to it under the provisions of this Agreement, the Railroad shall pay the amount of such deficiency to the Vendor upon demand, together with interest from the date of such demand to the date of payment by the Railroad at the Overdue Rate (to the extent permitted by law). If the Railroad shall fail to pay such deficiency, the Vendor may bring suit therefor and shall be entitled to recover a judgment therefor against the Railroad. If, after applying as aforesaid all sums realized by the Vendor, there shall remain a surplus in the possession of the Vendor, such surplus shall be paid to the Railroad.

The Railroad will pay all reasonable expenses, including attorneys' fees, incurred by the Vendor in enforcing its remedies under the terms of this Agreement. In the event that the Vendor shall bring any suit to enforce any of its rights hereunder and shall be entitled to judgment, then in such suit the Vendor may recover reasonable expenses, including attorneys' fees, and the amount thereof shall be included in such judgment.

The foregoing provisions of this Article 17 are subject in all respects to all mandatory legal requirements at the time in force and applicable thereto.

ARTICLE 18. Applicable State Laws. Any provision of this Agreement prohibited by any applicable law of any jurisdiction shall as to such jurisdiction be ineffective, without modifying the remaining provisions of this Agreement. Where, however, the conflicting provisions of any such applicable law may be waived, they are hereby waived by the Railroad to the full extent permitted by law, it being the intention of the parties hereto that this Agreement shall be deemed to be a conditional sale and enforced as such.

Except as otherwise provided in this Agreement, the Railroad, to the full extent permitted by law, hereby waives all statutory or other legal requirements for any notice of any kind, notice of intention to take possession of or to sell or lease the Equipment, or any unit thereof, and any other requirements as to the time, place and terms of the sale or lease thereof, any other requirements with respect to the enforcement of the Vendor's rights under this Agreement and any and all rights of redemption.

ARTICLE 19. Recording. The Railroad will cause this Agreement, any assignments hereof and any amendments or supplements hereto or thereto to be filed and recorded and from time to time when required refiled and rerecorded with the Interstate Commerce Commission pursuant to 49 U.S.C. § 11303. The Railroad will further cause all necessary filings and recordings, and, when required, refilings and rerecordings of this Agreement, any assignment hereof and any amendment or supplements hereto or thereto and/or appropriate financing statements or continuation statements to be made, and from time to time when required, refiled and rerecorded, in accordance with the applicable provisions of the Uniform Commercial Code of the State of California and of Oregon (and, if the Railroad changes its chief place of business to a different state, in any such other state) and in any other place therein or in any other State of the United States of America or the District of Columbia where filing is required by applicable state or Federal law or reasonably requested by the Vendor for the purpose of proper protection, to the satisfaction of counsel for the Vendor, of its interest in, and its status as first priority lienholder with respect to, the Equipment and its rights under this Agreement or for the purpose of carrying out the intention of this Agreement. The Railroad will from time to time do and perform any other act and will execute, acknowledge, deliver, file, register, deposit and record any and all further instruments required by law or reasonably requested by the Vendor for the purposes specified in the immediately preceding sentence of this Article 19. The Railroad will furnish to the Vendor from time to time or as reasonably requested by Vendor an opinion of counsel for the Railroad to the effect that all necessary filings and recordings have been made to protect the interests of the Vendor in, and its status as first priority lienholder with respect to, the Equipment.

The Railroad will promptly furnish to the Vendor certificates or other evidence satisfactory to the Vendor of such filing, registering, depositing and recording.

ARTICLE 20. Payment of Expenses. The Railroad agrees, whether or not the transactions hereby contemplated shall be consummated, to pay, and save each of Vendor and the Investor harmless against liability for the payment of, all out-of-pocket expenses arising in connection with the transactions contemplated in this Agreement or in the Finance Agreement, including (i) all taxes (together in each case with interest and penalties, if any, and any income tax payable by each of Vendor and the Investor in respect of any reimbursement therefor) which may be payable in respect of the execution, delivery and performance of this Agreement, the Finance Agreement, or the execution, delivery or acquisition of any Certificate of Interest issued under or pursuant to the Finance Agreement, (ii) all stenographic and duplication costs and the reasonable fees and expenses of special counsel to the Vendor and the Investor in connection with this Agreement, the Finance Agreement, the transactions contemplated hereby or thereby and any subsequent modification hereof or thereof or consent hereunder or thereunder and (iii) the costs and expenses, including reasonable attorneys' fees, incurred by the Vendor in enforcing any of its rights under this Agreement or the Finance Agreement or incurred by the Investor in enforcing its rights under any Certificate of Interest or incurred by the Vendor or the Investor in complying with any subpoena or other legal process served upon it in connection with this Agreement, the Finance Agreement or the transactions contemplated hereby or thereby or by reason of the Investor having acquired any Certificate of Interest, including, without limitation, costs and expenses incurred in any bankruptcy case. The obligations of the Railroad under this Article 20 shall continue in full force and effect notwithstanding the full payment of all sums due under this Agreement or the satisfaction, discharge or termination of this Agreement in any manner whatsoever.

ARTICLE 21. Survival of Representations and Warranties. The representations, warranties and the covenants of the Railroad made herein shall remain operative and in full force and effect regardless of (a) any investigation made by or on behalf of the Vendor or (b) any purchase back of any unit of Equipment by the Railroad pursuant to Article 4 hereof.

ARTICLE 22. Notice. Any notice hereunder to any of the parties designated below shall be deemed to have been duly given on the third business day after deposit in the United States mails (return receipt requested), first class postage prepaid, or on the first business day after timely tender to Federal Express or another similar overnight courier or dispatch by Federal Express service or such similar courier, or when received if delivered by hand, addressed as follows:

(a) to the Railroad, at the Southern Pacific Building, One Market Plaza, San Francisco, California 94105, Attention: Vice President-Finance,

(b) to the Vendor, at 30 South 30th Street, Philadelphia, Pennsylvania 19104, Attention: Corporate Trust Administration,

(c) to the Investor, at 270 Park Avenue, New York, New York 10017, Attention: Vice President - Marketing, with copies to 650 CIT Drive, Livingston, New Jersey 07039, Attention: Senior Credit Officer, and to 8 Stamford Forum, 7th Floor, Stamford, Connecticut 06901, Attention: Senior Vice President - Marketing,

(d) to Messrs. Dewey, Ballantine, Bushby, Palmer & Wood, at 140 Broadway, New York, New York 10005, Attention: Benito M. Lopez, Esq., and

(e) to any assignee of the Vendor or of the Railroad, at such address as may have been furnished in writing to each of the other parties hereto by such assignee,

or addressed to such other address as may have been furnished in writing by such party to the other parties to this Agreement.

ARTICLE 23. Article Headings; Effect and Modification of Agreement. All article headings are inserted for convenience only and shall not affect any construction or interpretation of this Agreement.

This Agreement, including the Schedules hereto, exclusively states the rights of the Vendor and the Railroad with respect to the Equipment and supersedes all other agreements, oral or written, with respect to the Equipment. No variation or modification of this Agreement and no waiver of any of its provisions or conditions shall be valid unless in writing and signed by duly authorized officers of the Vendor and the Railroad.

ARTICLE 24. Law Governing. The Railroad represents that its chief place of business and its chief executive offices are located in the State of California. The Railroad covenants that it will promptly give notice to the Vendor of any change in its chief place of business and its chief executive offices. The terms of this Agreement and all rights and obligations hereunder shall be governed by the laws of the State of New York; provided, however, that the parties shall be entitled to all rights conferred by 49 U.S.C. § 11303 and such additional rights arising out of the filing, recording or deposit hereof, if any, and of any

assignment hereof as shall be conferred by the laws of the several jurisdictions in which this Agreement or any assignment hereof or any financing statement or other similar instrument in respect of this Agreement or any assignment hereof shall be filed, recorded or deposited.

ARTICLE 25. Execution. This Agreement may be executed in any number of counterparts, such counterparts together shall constitute but one and the same contract. It shall not be necessary that any counterpart be signed by all the parties. If this Agreement is assigned by the Vendor, the original counterpart of this Agreement shall be deemed to be the counterpart executed by the Vendor and delivered to such assignee. Although this Agreement is dated, for convenience, as of the date first set forth above, the actual date or dates of execution hereof by the parties hereto is or are, respectively, the date or dates stated in the acknowledgments hereto annexed.

IN WITNESS WHEREOF, the parties hereto, each pursuant to due corporate authority, have caused this instrument to be executed in their respective corporate names by their officers, thereunto duly authorized, and their respective corporate seals to be hereunto affixed, duly attested, all as of the date first above written.

FIRST PENNSYLVANIA BANK N.A.,
as Agent,

[Corporate Seal]

by

Attest:

Assistant Secretary


SOUTHERN PACIFIC TRANSPORTATION
COMPANY,

[Corporate Seal]

by

Attest:

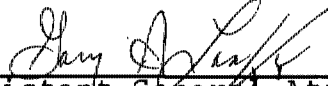
Treasurer



Assistant Secretary

Form Approved:

by



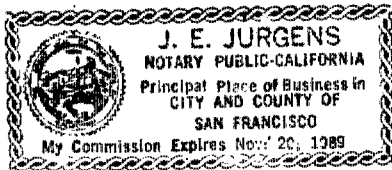
Assistant General Attorney


STATE OF CALIFORNIA

CITY AND COUNTY OF SAN FRANCISCO

)
) ss.:
)

On this 16th day of July, 1987, before me personally appeared E. F. Grady, to me personally known, who, being by me duly sworn, says that he is the Treasurer of SOUTHERN PACIFIC TRANSPORTATION COMPANY, that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.





Notary Public

[Notarial Seal]

My Commission expires: 11/20/89

Notary Public-California
City and County of
San Francisco

IN WITNESS WHEREOF, the parties hereto, each pursuant to due corporate authority, have caused this instrument to be executed in their respective corporate names by their officers, thereunto duly authorized, and their respective corporate seals to be hereunto affixed, duly attested, all as of the date first above written.

FIRST PENNSYLVANIA BANK N.A., as
Agent,


[Corporate Seal]
Attest:



Assistant Secretary

By

Title:



ASST. vice Pres.

SOUTHERN PACIFIC TRANSPORTATION
COMPANY,

[Corporate Seal]
Attest:

Assistant Secretary

By

Treasurer

State of Pennsylvania)
City of Philadelphia) ss.:

On this day of July, 1987, before me personally appeared *L.A. Tuzinski*, to me personally known, who, being by me duly sworn, says that she is a *A.V.P.* of FIRST PENNSYLVANIA BANK N.A., that one of the seals affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Lynne N. McCorry
Notary Public

[Notarial Seal]

My Commission expires:

LYNNE N. MCCORRY
Notary Public, Phila., Phila. Co.
My Commission Expires July 2, 1990

SOUTHERN PACIFIC TRANSPORTATION COMPANY

SP-366 A

DETAILED SPECIFICATION
FOR
OVERHAUL AND IMPROVEMENT
OF SD45-T2 LOCOMOTIVES

1. GENERAL

Locomotives will be rehabilitated in kind except as outlined in this Specification.

Original Model

SD45-2

2. ELECTRICAL EQUIPMENT

- a. Inspect all wiring; repair and/or renew as required.
- b. Apply prime warning Beacon PM-8911 series.
Remove class light assemblies as per project 05495.
Remove and blank off white signal light and red signal light.
- c. Inspect, test and calibrate loadmeter as required -- DMP-1-F.
- d. Electrical rotating equipment.
 - (1) Main generator/alternator AR10/D14.
 - (a) UX all AR10/D14's with small bearing.
 - (b) All AR10/D14's that are not unit exchanged will receive the following maintenance:
 - Renew main bearings over one year old.
 - Remove, clean and qualify both diode banks.
 - Clean alternator with soap and water.
 - Oven dry for 24 hours.
 - Inspect, megger and groove slip rings if required.
 - Check for open phase windings and verify suppression circuits.
 - Do not wash assembled AR10-D14's if bearings are to be reused.
 - (2) UX or SLW rebuilt traction motors with newly insulated interpoles, main fields and rewound armature.
 - Apply "umbrella" sleeves to all traction motor leads.

2. ELECTRICAL EQUIPMENT - Cont'd.

- (3) UX or SLW radiator cooling fan blower motors.
- (4) New, UX or SLW rebuilt grid blower motors.
- (5) UX or SLW rebuilt fuel pump motors.
- (6) Replace starter motors with UX or SLW 64-volt rebuilt starter motors.
- (7) UX or SLW inertial filter blower motor.
- (8) Turbo lube motors and pump new or rebuilt per SLW maintenance procedure. Turbo lube pump to be 3/4 H.P. with 3 gpm pump/30 amp breaker.
- (9) New AC aux gen (to include VR13 voltage control system).
- e. Apply new electric cab heaters; remove all piping for hot water cab heaters (if electric cab heater is already installed, qualify).
- f. Inspect contactors and relays. Repair or renew as required.
- g. Install new motors on reversers and braking switches.
- h. Inspect and test rotary switches, slide switches and pressure switches. Repair or renew as required.
- i. Inspect capacitors, diodes and rectifiers. Repair or renew as required.
- j. Renew all traction motor cutout microswitches.
- k. Inspect resistors, terminal boards and cable blocks. Repair or renew as required.
- l. Apply new Salem 812-1-20 valves for overspeed magnet valve and DBI magnet valve if not equipped.
- m. Apply remanufactured load regulator with new rheostat. Modify weatherproof cover per MI 4505.
- n. Apply new radiator fan temperature switches.
- o. Apply new unitized UD 466 Exide batteries.
- p. Renew all circuit breakers with new.

2. ELECTRICAL EQUIPMENT - Cont'd.

- q. Replace dynamic brake grids with new or rebuilt.
- r. Replace air conditioner with UX air conditioner on units equipped.
- s. Apply rear of train telemetry equipment on units not already equipped per project 25512 and 25534.
- t. Apply air compressor low oil protection.
- u. Apply Barco SIS MTR speed indicator with overspeed control.
- v. Apply dynamic brake hold-in circuit per project 20121, latest design.
- w. Inspect and test all modules.
- x. Apply two-speed dynamic braking.
- y. Full time low 235 RPM idle.
- z. Apply permanent MU cables front and back.
- aa. Replace extended range contactors with rebuilt.
- bb. Apply new AAR controller.
- cc. Install event recorder system under cab floor, fireman's side of locomotive.
Insure power connections are made to "13T" circuit, (ie. protected through control circuit breaker).
- dd. Replace all high voltage cabling between the electric cabinet, AR-10, and traction motors. Replace all cleats with new rubber type.

3. DIESEL ENGINE AND ASSOCIATED SYSTEMS

- a. Apply grade A, 20-645E3 engine adjusted to nominal 3600 HP. Apply unit exchanged E3B turbocharger with sprague clutch.
- b. Apply power assemblies with new hub liner 9318833 or equivalent, new piston with hardened top ring groove. Apply 9516928 ring set with No. 1 ring prestressed chrome faced stainless steel with flash chrome sides. 50% of units will have new nodular cast iron cylinder heads and remaining 50% of units will have new heads. New exhaust valves, new valve springs, new spring seats and new TRW valve locks. All other power assembly components to be new or reconditioned.
- c. Apply new or SLW rebuilt rocker arms.
- d. Apply new threaded valve bridges and lash adjusters.
- e. Apply new or rebuilt SLW E3 injectors.

3. DIESEL ENGINE AND ASSOCIATED SYSTEMS - Cont'd.

- f. Apply new main, thrust, connecting rod and camshaft bearings.
- g. Apply new plate crabs and necked down bolts.
- h. Apply new or SLW rebuilt water pumps.
- i. Apply new or SLW rebuilt main lube oil pump.
- j. Apply new or SLW rebuilt scavenging oil pump.
- k. Apply requalified or new EMD lube oil suction strainers.
- l. Apply reused 7 element Michiana oil filter housings. Convert 51 element "shotgun" filters to 7 element type.
- m. Apply qualified exhaust manifold transition section, eliminate exhaust screen.
- n. Apply new turbo screen inspection port per MI 9622 if not already applied (Kit 9336983).
- o. Apply gear type vibration damper.
- p. Apply 255 F hot oil shutdown device using flexible hoses (EMD #9565876 and #9565877).
- q. Modify oil separator if required, hi-dome type per Project 5200.
- r. Apply new fuel preheater EMD #9517269 and amot valve EMD #9509003.
- s. Install Baggie type engine air filter system.
- t. Apply removable inner eductor tube per DMP-1003.
- u. Apply new spin on type engine mounted fuel filters and dual EMD primary fuel filter.
- v. Apply new quick-disconnect fitting on L.S. and R.S. water pump discharge, water tank, and lube oil filter tank (9321340).
- w. Upgrade engine idler gear stubshaft assembly and gears to current design (MI 9587).
- x. Renew all gaskets and seals in water, lube oil and fuel oil systems.

3. DIESEL ENGINE AND ASSOCIATED SYSTEMS - Cont'd.

- y. Apply rebuilt or new differential pressure engine protector (MI 9640).
- z. Apply wing type cylinder test valves (Project 05397, 75397).
- aa. Replace 90° elbow on drain line from turbocharger with continuous curve in line; ensure drain is routed away from fly wheel.
- bb. Apply mechanical freeze dump valve - Ogantz 1-3-4-39-005, with instruction plate EMD part #9565819 per sketch MU-29.
- cc. Eliminate fuel strainer.
- dd. Add air box drain strainer per project #05530.

4. SHORTHOOD AND CAB EQUIPMENT

- a. Apply the following "clean cab" features per MI 9616 as required:

- (1) Hinge guard and pull handle for doors.
- (2) Head bump pads.
- (3) Rounded unitized sash latches.
- (4) Outside access number boxes.
- (5) Rubber grip horn valve handle.
- (6) Folding coat hooks.
- (7) Padded sun visors.
- (8) Wiper motor covers.
- (9) Rubber grips for wiper handles.
- (10) Renew windshield wiper motors and blades.
- (11) Renew Burgess metal and insulation.

- b. Assure the following cab appurtenances are in place:

- (1) G. W. Peterson #GP-108 fusee and torpedo holder with flag clips (ref. sketch MW-2).
- (2) General Fire Extinguisher #GC20D with floor mounted brackets #R8GC (ref. sketch MW-2).
- (3) Multi card holder.
- (4) One full length cab card holder (PP #12182 or equal).
- (5) Badge plate per DMP-4423.
- (6) Print holder with schematic (inside electric cabinet).
- (7) Tempilstik holder.
- (8) Hand cleaner holder.
- (9) Paper towel dispenser.
- (10) Paper cup dispenser.
- (11) Ajax model 200 ice activated water cooler with stand and locate between short hood door and fireman's cab heater per sketch MW-2.
- (12) Reconditioned seats with adjustable back and anti-theft feature. All seats to have arm rests. Reference DMP-4422.

4. SHORTHOOD AND CAB EQUIPMENT - Cont'd.

- (13) Apply sliding lock bolt to inside of all cab doors.
 - (14) Apply cab glazing meeting FRA part 223 specifications. Convert all "L" shaped windows to two piece type per Project #5440 if not in FRA compliance.
 - (15) First aid kit (ref. DMP-202C).
 - (16) Litter bag ID plates. Ref. Project 00135/70135.
 - (17) Water drain instruction plate (NP SLW 087).
 - (18) Low idle feature ID plate (NP SLW 009).
 - (19) Electric cab heater instruction plate (NP SLW 016).
 - (20) Two speed dynamic ID plate (NP SLW 071).
 - (21) Dynamic brake holding feature ID plate (NP SLW 077).
- c. Apply new or rebuilt Microphor toilet. Rebuild or apply new controls and apply new hopper tank. Drain and overflow pipes to be located away from traction motors.
 - d. Apply permanent numbers in number boxes.
 - e. Repair cab floor and install diamond back linoleum.
 - f. Apply floor drain in short hood.
 - g. Stencil locomotive weight to be consistent with that shown in E3-2 TOPS inquiry.
 - h. Assure that electrical cabinet has pressure integrity.

5. CARBODY ARRANGEMENT

- a. Clean and paint inertial filters. Eliminate 90° elbow on drain lines.
- b. Modify battery boxes for unitized batteries providing ready access to all cells and paint interior with PR-19 Primer and PR 475S final coat.
- c. Apply grab iron step and roof handhold to provide access to cab roof (ref. sketch MW-3).
- d. Install reconditioned or new NC 390 draft gears (DMP-4002F) as required.
- e. Install reconditioned or new coupler.
- f. Inspect traction motor cooling duct and repair cracks as necessary.
- g. Replace 6-cylinder air compressors with new, UTEX or SLW rebuilt 3-cylinder air compressor with gear pump. Inspect 3-cylinder air compressors. If over two years old, replace with SLW rebuilt 3-cylinder air compressor with gear pump; if under two years old, repair or replace as required. Apply new center bonded joint (CBJ) 9547685 in air compressor drive flexible couplings.

5. CARBODY ARRANGEMENT - Cont'd.

- h. Apply diffuser to main reservoir blowdown lines (ref. sketch R-8L-161).
- i. General #GC-20D fire extinguishers to be floor mounted (ref. sketch MZ-5).
- j. Apply new top mounted pneumatic fuel gauges.
- k. Install new Buckeye fittings on front of tank and rear of tank if equipped with four filler pipes.
- l. Change elements in main cabinet air filter, walkway on left side.
- m. Apply new rubber seal under main generator and completely seal clean air compartment from engine room. Insure doors latch securely. Insure the electrical cabinet doors and panels are in place and secure. Repair air leaks around turbo air ducting and electrical cabling.
- n. Modify front cutting levers to comply with latest FRA standards (Project 110) if not already done. Units with rear snow plow removed are to have rear cutting levers lowered to be in FRA compliance as hand holds.
- o. Renew cab door weatherstripping and clean air compartment door weatherstripping.
- p. Inspect and repair snow plow and wind sheets as required. End sheet to have lifting eyes at all four corners (ref. sketch MU-31 & 18). Remove rear snow plow if damaged and install closure plate with huck bolts.
- q. Apply new or requalified traction motor blower fan with extruded blades only.
- r. Eliminate inboard sanders, piping and magnet valves.
- s. Renew module compartment door insulation.
- t. Route generator sump drain away from traction motors.
- u. Add 90 gal. retention tank at rear of fuel tank.

6. HOOD

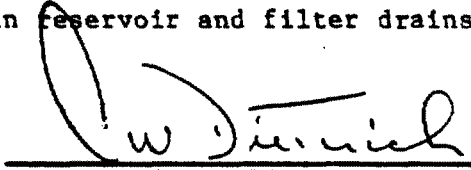
- a. Replace radiator soldered cores with mechanically bonded type.
- b. Apply crossover bus bar between D contactor compartments.
- c. Convert radiator access doors per SD40-2 style with carbody latches at bottom and open door supporting bar.
- d. Recondition grid fan compartment doors and latches. Apply lever type latches to grid fan compartment doors.

7. TRUCKS

- a. Overhaul trucks per DMP-4300 latest revision.
 - Bushings and pins at all brake rigging pin locations.
 - All new or rebuilt increased capacity TM gear cases with EMD thermoplastic seals.
 - Nylatron pedestal liners with reusable bolts and breakaway nuts. Ref. DMP-4322.
 - New 42" wheels.
 - Pin type slack adjusters where applicable. Ref. DMP-4323.
 - Apply knuckle holders to truck side frames per Project 05441.
 - Apply truck overhaul plate per DMP-4300 and Project 00137.
- b. Apply only reconditioned Jem boxes.

8. AIR SYSTEM

- a. Apply new Holland AC-71 brake hose supports.
- b. Perform 36 month air brake work as required by DMP 1-F. Clean and recondition all air brake components. Apply new valves in trainline air lines. Apply all new sand hoses with new nozzle.
- c. Apply trainline air hose (identification legends together with code numbers 1-2-3 (DMP-3012)).
- d. Remove all MU pneumatic sander piping and associated equipment.
- e. Apply KM-2 vent valve at rear end of unit if not equipped.
- f. Apply new Salem 975-100 series Twin Tower air dryer.
- g. Apply Salem 580 pneumatic type main reservoir and filter drains.


C. W. Dieterich
Assistant Chief Mechanical Officer
- Engineering & Planning

- Revision

Office of Chief Mechanical Officer - SP/SSW
San Francisco, February 7, 1986
Revised: April 9, 1987

[FORM OF OPINION OF RAILROAD'S COUNSEL]

[Date of Closing]

The CIT Group/Equipment Financing, Inc.
650 CIT Drive
Livingston, N.J. 07039

First Pennsylvania Bank N.A.
30 South 30th Street
Philadelphia, Pennsylvania 19104

Dear Sirs:

I have acted as counsel for the Southern Pacific Transportation Company, a Delaware corporation (the "Railroad"), in connection with the Sale and Conditional Sale-Back Agreement, dated as of June 1, 1987 (the "SCSA"), between the Railroad and First Pennsylvania Bank N.A. (the "Agent") and the Finance Agreement, dated as of June 1, 1987 (the "Finance Agreement"), among the Railroad, the Agent and The CIT Group/Equipment Financing, Inc. ("CIT"). This opinion is being delivered pursuant to both Paragraph 2B of the Finance Agreement and subparagraph (e) of the seventh paragraph of Article 3 of the SCSA. All terms used herein that are defined in the SCSA have the respective meanings specified therein.

I have examined originals or copies, certified or otherwise identified to my satisfaction, of such instruments as I have deemed necessary or advisable for the purpose of rendering the opinions hereinbelow expressed and relied upon officers of the Railroad with respect to the accuracy of material factual matters which were not independently established. With respect to the opinion expressed in paragraph 3 below, I have also relied upon the representation made by CIT in the first sentence of Paragraph 9 of the Finance Agreement.

Based on the foregoing, it is my opinion that:

1. The Railroad is a corporation duly organized and validly existing in good standing under the laws of the State of Delaware and has the corporate power to own its property to carry on its business as now being conducted and is duly qualified or otherwise authorized as a foreign corporation to do business and in good standing in each juris-

diction where the nature of the business transacted or properties owned by it makes such qualification necessary. The Railroad has either built or acquired its rail lines prior to the Interstate Commerce Commission ("ICC") acquiring jurisdiction over same or has been issued by the ICC all certificates of public convenience and necessity required for the operation and/or construction of the Railroad's railroad lines, and all such certificates are currently in full force and effect, save and except those involving abandonment, discontinuance or sale proceedings in the ordinary course of business.

2. The SCSA and the Finance Agreement have been duly authorized by all requisite corporate action and duly executed and delivered by authorized officers of the Railroad, and constitute valid obligations of the Railroad, legally binding upon and enforceable against the Railroad in accordance with their respective terms, except as such enforceability may be limited by (a) bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law), and the Certificate of Interest is entitled to the benefits of the Finance Agreement.

3. It is not necessary in connection with the execution and delivery of the SCSA or the offering, issuance, sale and delivery of the Certificate of Interest under the circumstances contemplated by the Finance Agreement to register the SCSA or the Certificate of Interest under the Securities Act of 1933, as amended, or to qualify an indenture with respect thereto under the Trust Indenture Act of 1939, as amended.

4. Neither the extension, arranging and obtaining of the credit represented by the Certificate of Interest nor the use of the proceeds thereof in accordance with the Finance Agreement and the SCSA results in any violation of Regulation G, T, U, or X of the Board of Governors of the Federal Reserve System.

5. The Railroad is not in violation of or in default under any term or provision of any charter, by-law, partnership agreement, mortgage, indenture, agreement, instrument, statute, rule, regulation, judgment, decree, order, writ or injunction applicable to it, such that such violations or defaults might materially and adversely affect the ability of the Railroad to perform its obligations under the SCSA or the Finance Agreement.

6. There is no action, suit, investigation or proceeding pending, or insofar as is known to me after having made due inquiry with respect thereto, threatened

against the Railroad or any properties or rights of the Railroad or any of its Subsidiaries, by or before any court, arbitrator or administrative or governmental body which might materially and adversely affect the ability of the Railroad to perform its obligations under the SCSA or the Finance Agreement or which brings into question the authenticity, validity or enforceability, in any respect material to the Agent or CIT, of (1) any sale of any Certificate of Interest pursuant to the Finance Agreement, (2) any sale of Equipment pursuant to Article 3 of the SCSA, (3) any sale of Equipment pursuant to Article 4 of the SCSA, (4) any other transactions contemplated by the SCSA or the Finance Agreement, (5) the acquisition or ownership by the Vendor of title to, or a first priority security interest in, the Equipment under the SCSA, or (6) any certificates and any other documents or instruments referred to in the SCSA or the Finance Agreement.

7. The execution and delivery of the SCSA or the Finance Agreement, the offering, issuance and sale of the Certificate of Interest or fulfillment of and compliance with the respective provisions thereof do not conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any lien upon any of the properties or assets of the Railroad pursuant to, the charter or by-laws of the Railroad, any applicable law (including any securities or Blue Sky law), statute, rule or regulation or (insofar as is known to me after having made due inquiry with respect thereto) any agreement (including any agreement with stockholders), any award of any arbitrator, instrument, order, judgment or decree to which the Railroad is a party or otherwise subject.

8. Insofar as is known to me after having made due inquiry with respect thereto, neither the nature of the Railroad nor any of its businesses or properties, nor any relationship between the Railroad and any other person, nor any circumstances in connection with the execution and delivery of the SCSA or the Finance Agreement or the offering, issuance, sale or delivery of the Certificate of Interest is such as to require any authorization, consent, approval, exemption or other action by or notice to or filing with any court or administrative or governmental body (other than routine filings after the date of closing with the Interstate Commerce Commission, the Securities and Exchange Commission and/or state Blue Sky authorities) in connection with the execution and delivery of the SCSA or the Finance Agreement, or the offering, issuance, sale or delivery of the Certificate of Interest or fulfillment of or compliance with the respective terms and provisions thereof, or, if any such authorization, consent, approval, exemption, other action or notice or filing is necessary, it has been obtained, given or made.

9. The delivery of the Equipment to the Agent at the Railroad's facility in Eugene, Oregon as provided in the SCSA is sufficient to avoid the application of Section 3440 of the California Civil Code to (i) sale to, and purchase by the Railroad of, the Equipment pursuant to the SCSA, or (ii) the acquisition or ownership by the Agent of title to, or a first priority security interest in, the Equipment under the SCSA, or (iii) the possession and use of the Equipment by the Railroad or any of its affiliates under the SCSA in California or all of the foregoing transactions taken as a whole.

10. Subject to the payment to be made by the Agent under Article 3 of the SCSA for each unit, the Agent is vested with all the rights, titles, interests, powers and privileges purported to be assigned, sold, or otherwise transferred to it by the Railroad under the SCSA with respect to each unit.

11. The title to, or a first priority security interest in, the units of the Equipment in the Group of Equipment being settled for pursuant to the SCSA on the date hereof is validly vested in the Agent and title to such units, at the time of delivery thereof to the Agent under the SCSA was free from all claims, liens, security interests and other encumbrances (other than those created by the SCSA).

12. The SCSA has been duly filed and recorded with the Interstate Commerce Commission pursuant to 49 U.S.C. § 11303 and financing statements have been duly filed and recorded with the Office of the Secretary of State of the State of California and of the State of Oregon, respectively, in respect of the SCSA and Equipment in accordance with the applicable provisions of the Uniform Commercial Code of the State of California and of the State of Oregon, respectively, and such actions are sufficient for the purpose of, and no further action, nor any filing or refileing of the aforesaid documents and/or financing statements or continuation statements (except as specified) is necessary for, the protection of the rights of the Agent under the SCSA and of its status as first priority lienholder with respect to the Equipment in any State of the United States of America or in the District of Columbia.

Very truly yours,

July 24, 1987

The CIT Group/Equipment Financing, Inc.
650 CIT Drive
Livingston, New Jersey 07039

First Pennsylvania Bank, N.A.
30 South 30th Street
Philadelphia, Pennsylvania 19104

Dear Sirs:

We have acted as your special counsel in connection with the transactions contemplated by the Finance Agreement, dated as of June 1, 1987 (the "Finance Agreement"), entered into among Southern Pacific Transportation Company (the "Railroad"), First Pennsylvania Bank N.A. (the "Agent") and The CIT Group/Equipment Financing, Inc. ("CIT"), pursuant to which the Agent has agreed to enter into the Sale and Conditional Sale-Back Agreement, dated as of June 1, 1987 (the "SCSA"), with the Railroad and to hold its rights to, and interest in, the Conditional Sale Indebtedness Series B due 1997 (the "Series B Indebtedness") created under the SCSA and its title to and property in the equipment covered by the SCSA (the "Equipment") in trust for the benefit of CIT. This opinion is being rendered pursuant to both Paragraph 2A of the Finance Agreement and subparagraph (d) of the seventh paragraph of Article 3 of the SCSA. Terms used herein shall have the respective meanings given such terms in the SCSA, unless otherwise defined herein.

We have examined, as a basis for our opinion, the respective certificates of officers of the Railroad and the Agent to be delivered pursuant to the SCSA and the Finance Agreement, and certified copies of the certificate of incorporation and by-laws of the Railroad and the Agent and resolutions authorizing the Railroad's and the Agent's participation in the transactions contemplated by the Finance Agreement and the SCSA, respectively. We have also examined the SCSA, the Finance Agreement and the Certificate of Interest being delivered on the date hereof and such other documents and records, and have made such investigations of fact and of law, as we have deemed necessary and relevant for the purposes of this opinion. We have relied upon the representations and warranties of the Railroad contained in

the Finance Agreement and the SCSA, the representations and warranties of the Agent contained in the Finance Agreement and the representations and warranties contained in said certificates of officers of the Railroad and the Agent as to factual matters set forth therein. With respect to the opinion expressed in paragraph 6 below, we have also relied upon the representation made by CIT in the first sentence of Paragraph 9 of the Finance Agreement.

We have examined the legal opinion of Thormund A. Miller, Esq., General Counsel of the Railroad, dated the date hereof and delivered to you pursuant to both paragraph 2B of the Finance Agreement and subparagraph (e) of the seventh paragraph of Article 3 of the SCSA. Based upon such investigation and inquiry as we have deemed relevant and appropriate, such opinion is satisfactory to us in form and scope and, while such investigation and inquiry into the matters covered by such opinion (other than the matters specified in paragraphs (1), (2), (3), (4), (5) and (6) below) were not sufficient to enable us independently to render such opinion, nothing has come to our attention that has caused us to question the legal conclusions expressed therein and we believe that you and we are justified in relying on it. We have also examined the legal opinion of M.A. Buckwalter, Esq., assistant counsel for the Agent, dated the date hereof and delivered to CIT pursuant to Paragraph 2C of the Finance Agreement. Based upon such investigation and inquiry as we have deemed relevant and appropriate, such opinion is satisfactory to us in form and scope and, while such investigation and inquiry into the matters covered by such opinion (other than the matters specified in paragraphs (1), (2), (3), (4), (5) and (6) below) were not sufficient to enable us independently to render such opinion, nothing has come to our attention that has caused us to question the legal conclusions expressed therein and we believe that CIT and we are justified in relying on it.

Based upon and subject to the foregoing, it is our opinion that:

1. The Finance Agreement has been duly authorized, executed and delivered by the Railroad, the Agent and CIT and is a legal, valid and binding instrument of the Railroad, the Agent and CIT [enforceable against the Railroad, the Agent and CIT respectively in accordance with its terms].

2. The SCSA has been duly authorized, executed and delivered by the Railroad and the Agent and is a legal, valid and binding instrument of the Railroad and the Agent [enforceable against the Railroad and the Agent (in its capacity as Agent under the Finance Agreement) respectively in accordance with its terms].

3. The Certificate of Interest has been duly authorized, executed and delivered by the Agent (in its capacity as agent under the Finance Agreement) and is entitled to the benefits of the Finance Agreement.

4. The SCSA has been duly filed and recorded with the Interstate Commerce Commission pursuant to 49 U.S.C. § 11303 and financing statements have been duly filed and recorded with the Office of the Secretary of State of the State of California and of the State of Oregon, respectively, in respect of the SCSA and the Equipment in accordance with the applicable provisions of the Uniform Commercial Code of the State of California and of the State of Oregon, respectively, and such actions are sufficient for the purpose of, and no further action, nor any filing or refileing of the aforesaid document and/or financing statements or continuation statements (except as specified) is necessary for, the protection of the rights of the Agent under the SCSA and of its status as first priority lienholder with respect to the Equipment in any State of the United States of America or in the District of Columbia.

5. We have caused the register maintained pursuant to 49 U.S.C. § 11303 to be searched and no record has been found of any interest in or claim, lien, security interest or other encumbrance against any unit of the Equipment in the Group of Equipment being settled for on the date hereof which would rank prior to or equal with the rights of the Agent in such units.

6. Under existing law, the issuance, sale and delivery of the Certificates of Interest under the circumstances contemplated by the Finance Agreement are exempted transactions under the Securities Act of 1933, as amended (the "Securities Act"), and the registration of the Certificate of Interest or the SCSA under the Securities Act is not required in connection with such transactions.

Our opinion is subject to the qualification that the enforceability of the SCSA and the Finance Agreement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and that the equitable remedy of specific performance and other equitable remedies are subject to the discretion of the court. No opinion is expressed as to matters governed by the laws of any jurisdiction other than New York or the United States and we have relied, as to such matters, on the aforementioned opinions of Thormund A. Miller, Esq. and M.A. Buckwalter, Esq.

Very truly yours,

SCHEDULE A

Type	Remanufacturer	Remanufacturer's Plant	Quantity	Unit	Total	Estimated Time and Place of Delivery
				Base Price	Base Price	
3600 horse-power diesel locomotives, Model SD45-TP2	Southern Pacific Transportation Company	Sacramento, CA	36	\$600,000	\$21,600,000	Between July and December 1987 at remanufacturer's facility at Eugene, Oregon
(original Model No.: SD45-2)						

15272

SCHEDULE A

<u>Old Road Number</u>	<u>New Road Number</u>	<u>Serial Number</u>
9203	6793	7336-38
9212	6794	72601-4
9221	6795	72601-13
9247	6796	72601-39
9202	6797	7336-37
9172	6798	7336-7
SSW 9165	6799	7348-9
9228	6800	72601-20
9179	6801	7336-14
9246	6802	72601-38
9170	6803	7336-5
9223	6804	72601-15
SSW 9159	6805	7348-3
9217	6806	72601-9
9233	6807	72601-25
9235	6808	72601-27
9167	6809	7336-2
SSW 9279	6810	72625-19
SSW 9292	6811	72625-32
9304	6812	73621-3
9306	6813	73621-5
9312	6814	73621-11
9183	6815	7336-18
SSW 9269	6816	72625-9
9241	6817	72601-33
9240	6818	72601-32
9193	6819	7336-28
9249	6820	72601-41
9321	6821	73630-7
9336	6822	73630-22
SSW 9285	6823	72625-25
SSW 9297	6824	72625-37
9350	6825	73674-7
9224	6826	72601-16
SSW 9397	6827	74696-27
SSW 9271	6828	72625-11